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MONOPOLY CAPITAL AND CORPORATIONS

PAUL M. SWEEZY

NASSERISM IN PERSPECTIVE

MAHMOUD HUSSEIN

Dictatorship of the Proletariat

CHARLES BETTELHEIM

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CONTENTS VOLUME 23 NUMBER 6 NOVEMBER 1971

REVIEW OF THE MONTH: The Resurgence of Financial Control: Fact or Fancy? by Paul M. Sweezy 1
NASSERISM IN PERSPECTIVE by Mahmoud Hussein 34
DICTATORSHIP OF THE PROLETARIAT, SOCIAL CLASSES AND PROLETARIAN IDEOLOGY by Charles Bettelheim 55
CORRESPONDENCE: Reflections on the Conglomerate Movement by Paul Booth 77
To Both Sol Yurick and Donald Light by David S. Kemnitzer 87
WORLD EVENTS by Scott Nearing 90

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NOTES FROM THE EDITORS

Press clippings sent us from Canada report that Pierre Vallières, author of MR Press book *White Niggers of America,* has gone underground, after being out of prison for several months on bail. All indications are that the situation in Quebec is ripe for fruitful political work. Unemployment in that province of 15 percent or more is projected for the winter months. "Factories are closing every month," writes a correspondent, "and strikes are increasingly frequent. The government is completely paralyzed! The 10 percent surtax [on imports to the United States] imposed by Nixon has provoked a veritable panic, as much in Ottawa as in Quebec. (75 percent of Quebec exports go to the United States.) The economic situation approaches more and more closely to that of Uruguay. The arrogance and incompetence of the Trudeau government, combined with the chronic weakness of the Quebec government, promotes the multiplication of conflicts in all sectors. In the months ahead, anything can happen."

(*Continued on inside back cover*)

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THE RESURGENCE OF FINANCIAL CONTROL: FACT OR FANCY?

By Paul M. Sweezy

A long three-part article by Robert Fitch and Mary Oppenheimer on "Who Rules the Corporations?" in *Socialist Revolution* (vol. 1, nos. 4, 5, 6) purports to demonstrate that giant U.S. corporations are controlled by banks and other financial institutions. In order to support this thesis, Fitch and Oppenheimer (henceforth F&O) find it necessary to attack views expressed by Paul Baran and me in *Monopoly Capital.* We are labeled "Marxist managerialists" and are charged with many grave errors of omission and commission. How large this misguided group is supposed to be is not clear, since James O'Connor is the only other one specifically named as belonging to it; but it seems evident that F&O regard the three of us not as isolated cases but as representatives of a significant theoretical trend which can seriously mislead the American Left. Under the circumstances a detailed reply seems called for.

I

To begin with, F&O have misunderstood the theory put forth in *Monopoly Capital.* As a result, much of the evidence they present, to the extent that it is relevant at all, in no way refutes or contradicts the theory. This by itself would not be too serious, since putting down Baran and Sweezy is no more than incidental to their main purpose of vindicating the theory of financial control. But unfortunately in their earnest efforts

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to accomplish this purpose they have committed so many methodological, analytical, and even factual errors as to deprive their study of corporate behavior of whatever value it might otherwise possess.

Let me start with a passage from *Monopoly Capital* which is quoted by F&O. It purports to characterize the typical giant corporation:

> (1) Control rests in the hands of management, that is to say, the board of directors plus the chief executive officers. Outside interests are often (but not always) represented on the board to facilitate the harmonization of the interests and policies of the corporation with those of customers, suppliers, bankers, etc.; but real power is held by the insiders, those who devote full time to the corporation and whose interests and careers are tied to its fortunes.
>
> (2) Management is a self-perpetuating group. Responsibility to the body of stockholders is for all practical purposes a dead letter. . . .
>
> (3) Each corporation aims at and normally achieves financial independence through the internal generation of funds which remain at the disposal of management. The corporation may still, as a matter of policy, borrow from or through financial institutions, but it is not normally forced to do so and hence is able to avoid the kind of subjection to financial control which was so common in the world of Big Business fifty years ago.*

It is perfectly obvious from this passage that Baran and I never had the slightest intention to deny the existence of either "outside" directors or corporate borrowing from financial institutions, from which it follows that all the evidence adduced by F&O on these points is entirely irrelevant. The question for F&O to answer is not whether bankers sit on corporate boards or whether corporations borrow from banks: of course they do. The question is whether these activities confer corporate control on banks and bankers. And here F&O have nothing to contribute but speculations, reiterated assertions, and an assortment of stories about individual cases which may or may not be relevant to the point at issue but which absolutely do not

* Part I, p. 87. The passage appears in *Monopoly Capital* on pp. 15-16. The omission in paragraph (2) is F&O's and has no bearing on what is here under discussion.

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form a valid basis for any generalizations. I shall have to examine some of these case "studies" later on, but before we come to that, there are other questions to be considered.

The first relates to the holdings of corporate stock by bank trust departments. The Patman Committee, extensively cited by F&O, has shown that these holdings are large and highly concentrated in the hands of a few dozen of the largest big-city banks. Do they carry with them control over the corporations whose stock is held in trust in large amounts? F&O take it for granted that they do. Waxing lyrical, they declare:

> The dramatic rise in institutional shareholding during the 1960s broke down the effective separation of ownership and control on which the theory of managerialism rested. Once again ownership and control were united in the trust departments of the great Wall Street banks: Morgan Guaranty Trust, Chase Manhattan Bank, First National City Bank. It was a unity recalling the age of Morgan, when financial institutions had been able to control corporations through their lending power. (Part II, p. 68)

Such a momentous change, one would think, ought to be pretty carefully documented. But F&O offer *not one single case* of a demonstrated causal link between bank trust holdings and corporate control. In contrast, during the age of Morgan (roughly from the Civil War to the First World War) there were literally hundreds of fully documented cases of financial control over corporations. Bankers and particularly bank trust officers will of course explain this absence of evidence of control relations very simply: their business, they will tell you (and not only for the public record), is investing money for the benefit of the trust beneficiaries, a function for which trust officers are carefully trained. They not only do not control corporations; they do not even want any such responsibility which would bring all sorts of headaches and open them to expensive damage suits should losses be suffered by trust beneficiaries owing to improper actions by trustees.*

* In this field of trusts and fiduciaries, capitalist law defining the responsibilities of trustees to beneficiaries is both strict and on the whole strictly enforced. This is not surprising since the stratum of the population principally involved is what C. Wright Mills called the "very rich" who are well aware of their rights and never make a move without expert legal advice.

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Naturally, I cannot prove that these disclaimers are sincere and reflect the actual state of affairs (the two things are by no means identical), any more than F&O can prove the opposite. Nevertheless, having informally interviewed a number of people in the trust business and taking account of the fact that they operate in huge bureaucracies under the watchful eye of customers' lawyers, courts, and bank examiners, I am inclined to discount the possibility that they are rationalizing or lying. Certainly, it is absurd in the extreme to compare the power over corporations which banks derive from their trust holdings to that of the financial tycoons of the age of Morgan. Such a comparison betrays not only a lack of knowledge of corporate history but, perhaps even more important, an absence of any feeling for what has been happening in the business world during the last century.*

Still, it must be conceded that there is one argument of a

* One small example will perhaps suggest what I have in mind. Everyone knows that the First National City Bank is a huge institution with scores of vice presidents, branches all over the metropolitan area, several major divisions (consumer, corporate, trust, real estate, international), and many thousands of employees. It is, in a word, a vast bureaucratic corporation in its own right, and its problems of structure, management, etc., are basically probably not too different from those of General Motors or Standard Oil. The contrast with one of its two predecessor corporations, the First National Bank, could not be more striking. Until his death in 1931, the First National was controlled in every sense by George F. Baker, Sr. who was nearly the equal of J. P. Morgan, Sr. during the latter's lifetime and inherited Morgan's mantle after his death in 1913. As late as the 1920s the First National had only five vice presidents who were also directors, occupied part of a small building at 2 Wall Street, would not accept deposits of less than a million dollars, and did no business at all with the general public. First National men sat on dozens of corporate boards, usually alongside Morgan men, and no one in Wall Street was in any doubt about their power. The changes in the business world which had taken place by the end of the Second World War, however, rendered this kind of an elite corporation-oriented bank no longer viable, and the First National was in effect swallowed up by the National City Bank which had been one of the pioneers of the new style of banking which predominates today. That a change of this kind reflects a change in the nature of the relations between banks and corporations seems obvious enough. One of the most distressing—and for me depressing—aspects of the Fitch/Oppenheimer study is that they show no awareness, not to say understanding, of the qualitative changes which have characterized the history of monopoly capitalism and of which the First National story is only one example.

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structural nature put forward by F&O in favor of the thesis of financial control which makes sense. It does not suggest anything like comprehensive or permanent control, but it certainly does leave open the possibility of decisive financial intervention in cases where a corporation's management performs poorly. The traditional Wall Street rule, F&O point out, has been "if you don't like management, sell." But, they go on, the growth of large institutional investments may make it practically impossible to apply the rule in some cases. And here they quote David Rockefeller as follows:

> I suspect that such investors will become more demanding of management as time moves on—that as holdings expand, institutions, as well as individuals, will feel obliged to take more active interest in seeing that corporations do indeed have good management. That will be true especially if their holdings become so large that they cannot readily or quickly liquidate their investments, as is now their practice when they become dissatisfied with the management of a corporation in which they hold shares. (Part II, p. 62)

Let us assume, for the sake of the argument, that this situation is on the way to becoming general, i.e., that in the typical case institutional investors are, or soon will be, ready and able to intervene in order to assure what David Rockefeller calls "good management." The question is, what does he mean by the term? F&O do not ask the question, perhaps because to do so would raise serious doubts about the kind of implicit or explicit assumptions concerning the motives of financial institutions that are sprinkled throughout their essay. But whatever their answer might be, I for one have no doubt that for David Rockefeller and the vast majority of his financial colleagues, a "good management" is one which has a good record of earning profits and expanding its company's profit-making base. This, it should be noted, is typical *capitalist* behavior (as analyzed by Marx in *Capital*), and it is what gives to capitalism its unique historical character as a value-expansion process (*Verwertungsprozess*).

If I am right about this, the implications are interesting. Financial control in this sense is certainly an argument against bourgeois "managerialism," as exemplified for example by Galbraith, according to which present-day corporate managers are

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no longer interested in maximizing profits. But for the kind of "managerialism" which Baran and O'Connor and I are supposed to represent, what may be called the David Rockefeller argument brings nothing but support, the stronger the more seriously the argument is taken. For what we are saying is simply that in monopoly capitalism the giant corporation is the basic unit of capital and that it operates according to the classical/Marxian principles of profit maximization and capital accumulation. Obviously, to the extent that financial watchdogs oversee this process and hold managements to the straight-and-narrow path of making and expanding profits for the corporation, and indirectly for its stockholders and creditors, our position is by that much strengthened.

I am not implying that the concentration of trust holdings in a handful of huge banks raises no substantial questions. One in particular—and it is an aspect of the problem about which Representative Patman is specially exercised—is the question of the availability to bank trust departments of confidential information on corporate affairs acquired by the same banks' lending departments and representatives on corporate boards of directors. There is no doubt, and the banks themselves do not deny it, that the normal relations between banks and corporations provide the former with vastly more inside information than is available to the average investor. If this information is turned over to trust departments and used by them in managing their clients' portfolios, it is obvious that the cards are stacked in favor of one set of investors at the expense of others. A case in point was provided by the Penn Central bankruptcy. According to a story in *Business Week* of July 24, 1971:

> A Patman committee aide, Benet D. Gellman, found that Chase Manhattan and several other large banks with loans outstanding to the corporation had unloaded huge amounts of stock just prior to its collapse. The Chase sold 436,000 Penn Central shares out of its trust accounts in one week.
>
> Patman was quick to note that Stuart Saunders, then Penn Central's board chairman, was also a director of the Chase. He charged further that the selling patterns of Penn Central stock strongly suggested that several banks, in selling portions of their stock, had acted in concert so as not to touch off too much downward price reaction.

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The banks' answer to such charges is of course a pious denial. *Business Week* quotes David Rockefeller, chairman of Chase, as follows:

> The trust and fiduciary investment functions of our bank are performed by departments that are wholly separate and distinct from our commercial lending activities, said Rockefeller. To assure the proper use and control of information received by the bank in its several capacities, there is no flow, or incidental communication of inside information, from commercial departments or divisions of the bank to the fiduciary investment department or to the pension or personal trust divisions of the trust departments.

Anyone familiar with the way business works will, of course, discount statements like this at very close to 100 percent. Here Patman wins hands down. But it is certainly no new discovery that the financial markets are stacked in favor of the big guy and against the little guy, nor is there any reason to believe that the particular twist given to this stacking process by the growth of bank trust holdings has had or will have any fundamental effects on the functioning of monopoly capitalism.

We shall return later to F&O's handling of the Penn Central bankruptcy.

II

Apart from basic questions of theory, I find it impossible to discuss "Who Rules the Corporations?" in a logical or systematic way. F&O jump about from subject to subject, from hypothesis to fact and vice versa, from assertion to case study, in a most bewildering way. For example, at the beginning of Part II they raise the question of the significance of trust holdings by banks and quote David Rockefeller as above. They next cite certain cases where financial institutions (not necessarily trust departments of banks) have had difficulty disposing of large blocks of stock. We now have the hypothesis to be tested or proved or at least illustrated: the trust holdings of banks are a source of corporate control. Here is the way F&O make the transition from hypothesis to "evidence":

> Faced with such potential losses it is not surprising that the

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institutional investor may decide to intervene in corporate affairs. During the sixties, for example, financial institutions took an active role in the merger movement. (Part II, p. 63)

Off and running, F&O now proceed to treat us to several pages of anecdotes mostly culled from the pages of *Fortune* and the *Wall Street Journal* about how various types of financial institutions (banks, investment bankers, mutual funds) were involved in the merger movement of recent years, all of which add up to exactly nothing except that a large part of the business of financial institutions is dealing with corporations in one way or another. Hardly a surprising discovery, to be sure. And indeed as F&O conclude this section (entitled "Do Financial Institutions Exercise Their Stock Voting Power?"), they come pretty close to conceding that it is all much ado about nothing: "That financial institutions do not always exercise Stockholder Power [they have in fact not proved that they ever do] is no proof of their indifference or impotence. It may mean that management is performing to their satisfaction." Here again, as in the quotation from David Rockefeller, the question of "good management" is raised. What do financial institutions want from corporate managements? But once again F&O decline the implied invitation to provide an answer. Wisely, I think, for if they were to give the straightforward answer that financial institutions expect profitable performance from managements, they would be fatally undermining many of the arguments they so laboriously put together later in the essay.

This example of methodological muddle is by no means unique: on the contrary it is typical, as I think careful readers, once alerted, will have no difficulty convincing themselves. My aim in the rest of this critique is to dispose of various specific arguments and theories which might mislead a reader who has little prior acquaintance with the field of corporate behavior and finance, and approaches the Fitch/Oppenheimer study with the perfectly reasonable hope of gaining useful information and knowledge.

Dividend Payouts. F&O make much of a supposed interest of financial institutions in increasing the proportion of corporate profits paid out as dividends to stockholders. The alleged rea-

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sons are, first, that raising the payout rate is a "sure-fire" way of boosting the price of a company's stock; and, second, that the more profits are paid out as dividends the less money is left for investment, thus forcing the company to borrow more from the banks. Neither of these arguments, alone or in combination, has the slightest claim to general validity. There are circumstances in which raising the dividend rate will lead to a fall in stock price—for example, if investors and speculators judge that the effect will be to deplete a company's cash below foreseeable needs and thus to jeopardize its solvency. The problem is complicated and no simple formula can possibly cover all cases. And by the same token the main interest of banks is often to limit or reduce dividends rather than raise them, the purpose being to make sure that companies have enough money to service already existing loans. It is, I am sorry to say, all too characteristic of F&O's methods that elsewhere in their essay, when it serves their immediate purpose, they provide ample evidence for this concern of the banks. The discussion of dividend payout rates occurs in Part III, especially pp. 39-40, where the banks' interest in corporate liquidity is not even mentioned. On p. 82 of Part II, on the other hand, they present a table entitled "Long-term Lenders' Conditions" which lists conditions to which *Fortune's* top fifty companies have agreed in order to obtain long-term loans (these are called "restrictive covenants" and are a normal feature of loan agreements). In twenty-four of these fifty cases, the *only* condition noted is "dividends restricted," and in two others dividend limitation is listed as one of two conditions. The banks' enthusiasm for raising dividend payout rates seems, to put it mildly, less than overwhelming!

Even more peculiar is a piece of statistical "evidence" offered by F&O in connection with their argument that finance capital exercises pressure for higher payout rates. On p. 39 of Part III they present a table entitled "Corporate Dividend Payouts by Asset Size: 1960-1970." This shows that in every year there is a close correlation between asset size and payout rate: the larger the company the higher the payout rate. While the conclusion is not stated in so many words, it is clearly implied that this reflects the "fact" that the power of finance

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capital is similarly correlated with corporation size. Strangely enough, however, F&O fail to note—or, if that seems unlikely, at any rate fail to point out to the reader—that in every asset category there occurs a dramatic and continuous *decline* in the payout rate during the decade of the 1960s, presumably precisely the period when finance capital was moving from one triumph to another. For example, in the largest size category (assets over $1 billion) the payout rate in 1960 was 70.8 percent, and in 1970 it was 55.5 percent. Do the financiers lack the power attributed to them by F&O? Or the goals? Or both? The most plausible answer, I think, is both.

Before we leave this subject, let me cite one more example of how F&O handle "evidence." Because Baran and I maintain that "the making and accumulation of profits hold as dominant a position today as they ever did," F&O flatly assert: "According to Baran and Sweezy, the development of monopoly has no effect on capital accumulation at all." (Part III, p. 37) When I first read this, I rubbed my eyes in amazement. How could anyone really read *Monopoly Capital* without recognizing that the effect of monopoly on the accumulation of capital is what the book is all about?* But never mind, what Baran and Sweezy did in *Monopoly Capital* is one thing and what F&O are interested in demonstrating is something else. They want to show that the rate of capital accumulation has declined in the last hundred years or so and that this is due to the growing power of finance capital.

The first thing to note is that F&O *define* the rate of accumulation as the proportion of profits reinvested which, for a corporation, is simply the inverse of the dividend payout rate. One could of course set up a highly simplified model of capitalism in which the only form of accumulation is the reinvestment of profits by firms. But this is far from being the case in capitalist reality, where accumulation takes a number of other forms as well—savings by dividend-receivers and others with relatively high incomes, so-called forced savings due to price inflation, investment of speculative profits, etc. It is totally inappropriate, not to use a stronger term, to attempt to interpret,

* See, for example, pp. 81-88 and chapter 8.

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as F&O here do, an actual historical process in terms of a concept which could have meaning only in the context of an abstract theoretical analysis. Let us ignore this, however, and see how good a case F&O can make with their own private definition of accumulation.

We have already seen (p. 9) that according to their own figures, the dividend payout rate has decreased sharply in the last decade, which means that in their sense the rate of accumulation has to the same extent *gone up*. But how about the last century? Here the problem would be to gather comparable figures for the nineteenth century. Of course no one has done it, and owing to lack of raw data no one could do it except in a highly speculative and impressionistic way. But this does not daunt our authors:

> The heroic anality of eighteenth- and nineteenth-century entrepreneurs, saving their profits and retaining them in the business, is a frequently told tale of economic history. Rates of accumulation were *obviously* very high. Just how high we are told less often. And aggregate figures for the various branches of industry are probably impossible to state with *complete* accuracy. (Part III, p. 38. Emphasis added.)

Next F&O cite what the author of a "widely used text" said about "one well-rooted British textile firm," to which they add that "other available records" show that "especially in the early stages of successful entrepreneurship, profit retention actually approached one hundred percent. And some businesses were even more strenuous in their demands for profit retention." Secure in the knowledge that these over-one-hundred-percenters must push the average up, F&O confidently continue: "So despite the gaps in existing historical records, *it seems safe to conclude* that early capitalist entrepreneurs accumulated at least half of their profits, and very likely considerably more." (Emphasis added.)

The reader, dazzled by this display of scientific economic history, is now ready for the clincher, which must obviously be proof that the "modern counterparts" of these early accumulators are indeed a different kettle of fish. But, alas, he is in for a sad disappointment. "We can get a fairly precise idea of the present rate of accumulation," we are informed, "by exam-

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ining dividend payout ratios." (They have in fact *defined* the accumulation rate as the inverse of the payout ratio.) There follows the discussion of payout rates analyzed above. But what is carefully omitted is the "completely accurate" fact that, according to F&O's own figures, the unweighted average payout rate in 1970 was 42.3 percent. This corresponds to a Fitch/Oppenheimer accumulation rate of 57.7 percent, which would seem to fit comfortably into the formula of "at least half of their profits, and very likely considerably more."

Faced with workmanship like this, one is hard put to know whether to laugh or weep.

Depreciation. Baran and I are accused of committing what F&O consider to be the egregious error of assuming that depreciation is a source of internal funds which has played a large part in liberating the managements of giant corporations from the kind of subservience to finance capital which characterized the age of Morgan. Not so, they say: "Depreciation is a cost of fixed assets—a cost, not a gain. Depreciation can no more be used to finance expansion than other deductions from revenues, provision for bad debts, fire loss, etc. The only internal funds that can be used for expansion are retained earnings." (Part II, p. 69n) All perfectly true in elementary accounting theory. But for better or worse we are talking about corporation finance, and in this realm matters stand very differently.

In the first place, no one knows even in theory what the "true" amount of depreciation is, so that in practice it is almost always what the tax authorities allow.* And since tax authorities in a monopoly capitalist society are notoriously servants of the leading echelons of the capitalist class, this means that characteristically a big hunk of what ought to be classified as profits and taxed accordingly is actually called depreciation and entirely escapes taxation. In practice, therefore, F&O's dictum that depreciation cannot be used to finance expansion is wrong: it often is used for precisely that purpose.

In the second place, and even more important, what is at

* The reasons for the theoretical indeterminacy of depreciation as a cost in a dynamic monopoly capitalist economy are explained in *Monopoly Capital,* pp. 99-104; but the subject, like much else in the real world of monopoly capitalism, is apparently not one that interests F&O.

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issue here is not expansion as such but the availability of cash, the lack of which forces dependence on banks and in extreme cases means bankruptcy. And in this respect a dollar labeled depreciation has exactly the same significance as a dollar labeled after-tax profits: they both can be used for any corporate purpose and neither is in any way tied to replacing worn-out or obsolete assets. From the point of view of corporate managements, large and small, the key concept is not depreciation or retained earnings but *cash flow*. It is theoretically perfectly possible for a company with a relatively large amount of fixed assets, and hence a robust cash flow on depreciation account, to quit one line of business entirely and enter another more profitable line without ever retaining a penny of profits or borrowing a nickel from the banks. To be sure, this is not likely to happen in this extreme form, but it is important to understand how and why it could happen. The company with a strong cash-flow position is *never* forced to go hat-in-hand to the banks. The shoe is more likely to be on the other foot: such a company, whenever it wants to raise additional capital, say for a major acquisition or an ambitious foreign expansion program, can pick and choose among possible lenders, playing one off against the other and in the final analysis imposing its own terms on the financiers. And this is precisely the situation of General Motors, Jersey Standard, General Electric, IBM, and many of the other corporate giants which dominate the U.S. economy. Here we can see with crystal clarity how silly it is to equate, as F&O do, external financing with financial control. Logically, it could just as well be taken as an indication of corporate control over the banks and other financial institutions.

Who Controls Whom? I am not suggesting that control of the banks by the big corporations is the normal state of affairs. I do not know—any more than F&O do—enough about what goes on in the boardrooms and executive offices of the big business world to make such an assertion or even hypothesis, and the gentlemen directly involved are not likely to fill us in on the missing information. But it is interesting and salutary to note that a *prima facie* case for the theory of corporate control over the banks can be constructed on the same kind of data that F&O use to "prove" the opposite. Furthermore, F&O know it

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as well as I do, as shown by two little footnotes which they seem to have been anxious to make as unobtrusive as possible.

The first of these footnotes, on p. 99 of Part I, is addressed to unnamed persons "who argue that interlocks between banks and corporations could just as easily prove the corporations' control of the banks as vice versa." According to F&O, these people should consider bank stockholdings. Well, we have considered bank stockholdings (i.e., the holdings of the banks' trust departments) and have seen no reason to assume that they are used as instruments of control. What about the interlocks? Taken by themselves, it is certainly true that they could "just as easily prove the corporations' control of the banks as vice versa"—or rather, taken by themselves, they don't prove anything. Since F&O obviously know this, one cannot but wonder why they bother to put so much stress on interlocks.

The second footnote (Part II, p. 77) casually remarks that "some [again unnamed] managerial economists have maintained that corporations control the banks and not vice versa because the corporations, through their deposits are net lenders to banks." I am not one of the "managerial economists" referred to here since I must admit that I had not previously thought of this argument. Nor do I believe that, taken by itself, it carries much weight: global figures are frequently of little use in revealing relations of cause-and-effect or domination-and-subordination. What we would need to know is where the balance of power lies in the open or tacit bargaining between giant corporations and giant banks over who places deposits where and who borrows from whom, and there seems to be no way in which this question could be empirically decided. Perhaps the safest hypothesis is that both sides hold strong cards and that their mutual lending and borrowing operations provide no basis for assuming that either controls the other.

At the same time, however, one should not overlook that from the point of view of the slapstick methodology employed by F&O, the argument in question is a powerful one *against* their main thesis of financial control. That they have relegated it to a three-line footnote does not speak well for their sense of scientific integrity.

Reciprocity. F&O devote a lengthy section of their essay to

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what they call "Financial Control and the Rise of Reciprocity" (Part III, pp. 77-92). "Reciprocity" is the business term applied to the widespread practice of corporations' simultaneously buying from and selling to each other. General Motors needs business machines and IBM needs automobiles and trucks; their mutual requirements therefore lay the basis for mutually profitable deals. As suggested by their use of the expression "the *rise* of reciprocity," F&O are under the impression that there is something recent about the practice. They also believe, among other things, that reciprocity is tied to financial control, that it contradicts all theories which assume corporate maximizing behavior, and that "managerialists" like Baran and Sweezy—who are presumably unaware of the practice—are unable to take account of it in their theories and are hence refuted by its very existence.

Here, as in many other places, F&O reveal their ignorance of U.S. economic history. Reciprocity became notorious in this country during the nineteenth century when it was universally practiced by the railroads and their suppliers and customers. When it is remembered that during the second half of the nineteenth century, investment in railroads exceeded that of all other industries combined, it will be appreciated that nothing could be more out-of-focus than to view reciprocity as a recent development. Nor could it be argued that reciprocity declined during the early decades of the twentieth century, to experience a resurgence in the post-Second World War period. The Interstate Commerce Commission published a multi-volume report during the 1920s proving that reciprocity was as prevalent among the railroads then as it had been in the earlier period, and throughout its history the Federal Trade Commission (founded in 1914) has been more or less continuously engaged in a largely futile effort to curb the practice.

As for Baran and Sweezy's neglect of reciprocity, I must ask the reader to bear with me while I quote a passage from *Monopoly Capital* (p. 50):

> The attitude of live-and-let-live which characterizes Big Business . . . derives from the magnitude of the corporation's investment and from the calculating rationality of its management. By and large, this attitude is reserved for other big corporations and

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does not extend to the smaller businessman. For example, the big three automobile companies behave toward one another in a way that Schumpeter appropriately called "corespective," while their behavior to the scores of thousands of dealers who sell their products to the public is notoriously overbearing and dictatorial. The reason, of course, is that each of the big ones recognizes the strength and retaliatory power of the other big ones and as a matter of deliberately calculated policy avoids provoking them. But corespective behavior is by no means limited to competitors. If one big corporation is not a competitor of another, it is quite likely to be either a customer or a supplier; *and in this realm of corporate relations the sovereign principle is reciprocity,* which enjoins corespective behavior as surely as competition does. (Emphasis added.)

It should perhaps be added, what is clear from the context in the book, that the "competition" referred to is monopolistic or oligopolistic competition, not the pure competition of traditional economic theory.

F&O might perhaps argue that Baran and Sweezy are inconsistent in admitting the ubiquity of reciprocity and at the same time insisting that corporations act to maximize profits. But this is only because they *assume* that corporations are typically controlled by financiers who also control other corporations and that there is no way these outside controllers can act to achieve simultaneous maximum profits for all of them. "That is," F&O explain, "marginalists deal with the issue of oligopoly by ignoring one simple fact of economic life: that a director who represents two corporations cannot possibly maximize profits for both corporations." (Part III, p. 79) They then go on to drive their point home in typical Fitch/Oppenheimer fashion:

> Take, for example, the case of Mr. John A. Mayer, Jr., chairman of the board of the Mellon National Bank. Mayer sits on four boards of giant industrial corporations: General Motors, Heinz, Armco Steel, and Alcoa. All four do business with each other. . . . Even with the best possible intentions, how can Mayer simultaneously maximize profits for all the corporations he serves as a director? If he tries to get bargain steel for GM, he isn't maximizing for Armco, and vice versa. Simultaneous maximization on intercorporate sales is an impossibility for a man who represents both companies. If this point is grasped, academic microeconomics becomes entirely untenable.

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The trouble with this argument is that it ignores a "simple fact of economic life," namely, that Mr. Mayer's primary responsibility is to maximize the profits of the Mellon National Bank, and there is no *a priori* reason why this should be incompatible with all four of the other companies' acting to maximize *their* profits.

This does not mean, of course, that GM, Alcoa, Armco, and Heinz may not indulge in all sorts of reciprocal deals with each other. It only means that if they do enter into such deals, each corporation is going to be doing the best it can for itself and not simply carrying out the orders of some financier who pulls the strings for all of them. On the other hand, the fact that Mr. Mayer sits on all four boards is by no means enough to assure that these corporations will select each other as reciprocity partners. GM, for example, might find it more profitable to do a deal with U.S. Steel than with Armco. It all depends on the specific circumstances, which may or may not include consideration of common banking ties.

It is interesting that what concrete evidence F&O introduce on actual, as distinct from possible, reciprocity relations fails to support their thesis that "the networks of reciprocity in corporate America appear to parallel, and to be created by, networks of financial control." (Part III, p. 78) They cite Congressional hearings to show that tight reciprocity relations exist between rubber and oil companies. From the point of view of a rival oil company which was anxious to break into this arrangement, the line-up was as follows:

CUSTOMER	SUPPLIER
B. F. Goodrich	Gulf
U.S. Rubber	Texaco
Firestone	Shell
Goodyear	Sun and Sinclair

I am writing this without access to corporate manuals, but I am quite willing to take it for granted that F&O carefully examined these pairs of companies for interlocks, banking ties, etc. And by the same token I conclude that the fact that they mention none reflects an absence of such relations rather than incompetence on the part of the authors.

On the next page, however, F&O finally come up with

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their "proof," which is characteristically introduced by the sentence: "Consider the history of the relationships between DuPont, General Motors, and U.S. Rubber (now Uniroyal)." No one familiar with the subject doubts that these three companies were, and perhaps still are, under the common control of the DuPont family, or that they have engaged in extensive reciprocity dealings.* The focus of F&O's attention is the situation which existed prior to 1962 when, by U.S. Rubber's own admission, it was selling tires to GM practically at cost, thus in effect transferring profits from one corporation in which DuPont ownership was around 10 percent to another in which it was nearly 25 percent. The trouble is that this *is* part of the history, not the present status, of the relationships we are asked to consider. Since 1962, partly as a result of an antitrust suit forcing DuPont to divest itself of GM stock but probably also because of a change in DuPont managerial strategy, the situation has radically changed. Once again, F&O relegate to a three-line footnote (Part III, p. 90) facts which contradict their thesis: "Since the divestiture Uniroyal's share in GM tire purchases has dropped to 42 percent [which is less than GM's share of the automobile market]. However, Vila [president of Uniroyal] says that the company now makes a profit on its GM tire sales."

The upshot is that this bit of DuPont history brings support not for the Fitch/Oppenheimer thesis of outside/financial control but for the position adopted by Baran and Sweezy in *Monopoly Capital*. After sketching changes in the typical behavior of the various Standard Oil companies in the half century or so following the break-up under the Sherman Act of the original company in 1911, we wrote:

> It is possible that the old Standard companies may still be subject to Rockefeller influence, perhaps even control: publicly available information is not conclusive one way or the other. But if they are, one can only infer that the Rockefellers have decided that the best way to promote their interests is to allow, or perhaps

* F&O's attempt to link DuPont control to banker control takes the form of designating the controlling power as "DuPont-Wilmington Trust." This is nothing but a cute trick: Wilmington Trust is in reality nothing but a DuPont house bank playing absolutely no independent role in the whole complex.

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encourage, each of the companies to promote its interests. In these circumstances the issue of Rockefeller control becomes irrelevant to the behavior of the companies or the *modus operandi* of the system of which they form constituent parts. . . .

This does not of course mean that each giant corporation operates in isolation, that there are no alliances and alignments, no agreements and groupings. On the contrary, these forms of action—like their opposites, competition and struggle—are of the very essence of monopoly capitalism. All that we are asserting is that the relevant line-ups are determined not by ties to outside control centers but by the rational calculations of inside managements. In the oil industry, for example, Standard companies are as ready and willing to ally themselves with or fight against non-Standard companies as with or against other Standard companies. It all depends where the maximum profit lies. (*Monopoly Capital,* pp. 19-20)

The DuPont case could have been cited in support of precisely this position. Ironical that F&O, despite their opposite intentions, should make the point for us.

After they get done delivering themselves of sweeping generalizations and denouncing all existing brands of economics, F&O have an endearing way of coming down to earth and confessing, a little shamefacedly perhaps, that we needn't take them too seriously after all. The conclusion of their section on reciprocity is an excellent example. "It may be objected," they write, "that government litigation, such as that carried out against DuPont, now prevents outside financial interests from exercising control over sales and purchases." I wouldn't make this particular objection, since I doubt that—except in a few special cases—government litigation has played much of a role in this regard. But I can go along with the conclusion they draw from it: "In other words, reciprocity linkages aren't determined by stockholdings, directorships, and ties to outside financial institutions." The preceding fourteen pages were of course based on the assumption that this is indeed precisely the way reciprocity linkages are determined. Now, however, F&O in effect admit that all the seeming "evidence" they have offered has little or no bearing on the question:

Such a possibility [that reciprocity relations are determined in some other way] requires empirical investigation into intercorporate relations, investigating whether the traditional market factors of price, quality, and service do, in fact, determine market

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shares. [Why assume that this is the only alternative possibility?] But in the meantime, the pervasive influence of financial institutions and other outside groups on intercorporate relations seems to provide a basis for further investigation. (Part III, p. 91)

So we end up with a plea for "further investigation." Splendid! This is one of the few things in the whole Fitch/Oppenheimer essay with which I can wholeheartedly agree.

The Mode of Capital Accumulation. F&O have a long section (31 pages) entitled "The Mode of Capital Accumulation," defined as "the way in which profits are ploughed back and redeployed." (Part III, p. 47) This is another one of those private Fitch/Oppenheimer concepts—I do not remember ever having run across it in the Marxian literature—which provides the launching pad for what struck me, after several readings, as a strange jumble of seemingly carefully researched facts along with largely unrelated and sometimes quite nonsensical speculations and pronouncements. In the very first paragraph of the section, for example, we read: "Acceleration of the rate of accumulation broke up guild production and changed relations between masters and journeymen into relations between capitalists and proletarians. The increase in the rate of accumulation of the material forces of production created new relations of production." We have already seen above (pp. 10-12) how F&O define the rate of *capital* accumulation, to which they now add the undefined notion of the "rate of accumulation of the material forces of production." These rates, which in some unexplained way must have existed in precapitalist as well as in capitalist society and which are presumed to have been increasing, are now credited with bringing about a social transformation. This is sheer mystification of the real historical process in which what Marx called primary accumulation played the decisive role. Only *after* the social transformation had taken place does it make sense to speak of a rate of accumulation and even then not in F&O's historically distorted sense.

There are many other passages which seem to me to be similarly erroneous or confused, but analyzing them would serve no useful purpose. I would, however, like to try to disentangle what I take to be F&O's major theoretical argument. If I have misunderstood them, I shall be glad to be corrected.

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The key passage is the following:

> In the capital transfer process, a corporation operating in a low-profit industry takes its surplus value and recycles it into a corporation operating in another industry with a higher rate of profit. Capital is thus reconstituted. It serves a new social purpose, creating different commodities or services. Its potential for self-expansion is based on a different human need. This cross-industrial transfer distinguishes it from "classical" accumulation, in which surplus value was converted into capital by the entrepreneur, but the capital remained within the same firm.
>
> This new mode of capital accumulation is typical of the mature monopolies. . . . (Part III, p. 49)

According to this view, classical accumulation—which I suppose means accumulation in the period of competitive capitalism—took place entirely within firms each of which was committed to a particular line of production. Only later, in the period of monopoly capitalism, did a "new mode of capital accumulation" emerge which allows capital to be transferred from one line of production to another. This transfer process is presided over by financiers who manipulate it in various ways, frequently starving some lines of production (railroads, utilities), force-feeding others (computers, photocopiers, etc.), and of course taking the cream off the top for themselves. From the transfer process, which as we have seen is itself supposed to be a "new mode of accumulation," there thus emerge two other new modes of accumulation: the accumulation of loan capital and the accumulation of speculative capital. These new modes of accumulation have "an advanced socialized form" but "a thoroughly decadent and destructive content." (Part III, p. 75) They "amount to a primitive and socially reactionary form of *planning* within capitalism itself." (p. 77) According to F&O, "The next step in the socialization of the investment process must be the transformation of its social relations: the elimination of the financial oligarchy and its replacement by committees of workers operating under the control of popular assemblies." (*Ibid.*)

The programmatic hint in this last sentence raises interesting questions with which, however, I cannot attempt to deal in the present context. What I would like to call attention to

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is F&O's peculiar conception of "classical accumulation." If there is no transfer process, if every firm stays in the line of business it happens to be in, and if all accumulation takes place through ploughing back profits within firms, then the whole competitive mechanism—which is central to classical, Marxian, and neoclassical economics alike—goes by the board. For how else than through capital flows from less to more profitable industries is an average rate of profit formed and supply adjusted to demand at prices equal to values or prices of production? Can F&O really be so ignorant of the history of economic thought that they are unaware of all this? Or, knowing it, have they deliberately set up a straw man ("classical accumulation") as a point of departure which enables them to hail as "new" (some of) the methods by which the transfer process is carried out? To put it mildly, neither assumption is very flattering.

This is not the occasion to discuss historical changes in the forms of capital accumulation and the role of banks and other financial institutions therein. Suffice it to say that from the earliest days of capitalism, accumulation has *always* encompassed many forms other than the direct ploughing back of profits—which, incidentally, has acquired more, not less, importance in the era of giant corporations than it had in the "classical" period—and that banks and other financial institutions have *always* played an indispensable role in mobilizing capital and channeling it into the most profitable lines of activity. This role of the financiers has naturally carried with it influence and sometimes control over industrial enterprises, but only in the formative period of monopoly capitalism—roughly the half century after 1870—was financial control the regular and normal condition in the world of big business. Since the Second World War the giant corporations have generally been strong enough to stand on their own feet and relate to the financiers as at least equal, and often more than equal, partners.*

Do any of the many real facts cited by F&O contradict this theoretical perspective? I do not think so. As throughout their

* Here, as throughout this critique, I am following F&O in confining attention to the United States. Modifications would be necessary in the case of other advanced capitalist countries.

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essay, F&O in the section under examination *assume* financial control and then "explain" all sorts of things in terms of the presumed motives of the financiers. In the absence of proof of financial control and given F&O's lack of real knowledge of financiers' motives, such explanations are unfortunately worthless. I will cite only one of several possible examples. Discussing the way financial management allegedly prevents utilities like American Telephone and Consolidated Edison from foreseeing and meeting rising future demand for their services, F&O write:

> AT&T's directors *could* float enough bonds to take care of New York Telephone and all its other ailing subsidiaries. But it is highly unlikely that they will do so, for AT&T and its subsidiaries already account for about a quarter of *all* the corporate bonds sold in the United States. And AT&T's directors are the men who control the bond market at both ends. To let AT&T unleash all the bonds it needs on the American bond market would send prices down faster and farther than such market-makers as Morgan, Stanley; Dillon, Read; and First Boston could care to see. Nor would those AT&T directors who represent the largest *holders* of AT&T debt—insurance companies like Metropolitan, Prudential, and Equitable—care to see the prices of these bonds fall. (Part III, p. 66)

This is simply a series of *non sequiturs*. The proportion that AT&T bonds constitute of all corporate bonds is irrelevant. If AT&T needs to sell bonds to raise capital, it can always do so on terms that are about as good as any other corporation can obtain. In this connection it is necessary to bear in mind something of which F&O are apparently ignorant, i.e., that regulatory agencies always permit utilities to charge prices which cover interest payments before the calculation of net profits: in the case of AT&T, which is the biggest of all regulated monopolies, this means that the corporation's bonds carry something very close to a government guarantee. Under these circumstances, banks and insurance companies would not want to sell (or buy) more AT&T bonds only if they were uninterested in selling (or buying) any more high-grade corporate bonds. But of course this is ridiculous, as F&O would have to agree, since one of their main contentions is that these financiers are always pushing the corporations to issue more bonds.

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As to F&O's seeing in their alleged "new modes of accumulation" signs of "socialization" of the investment process and embryonic forms of "planning," I can only say that this strikes me as the most arrant nonsense. There is plenty of very real socialization of *production* (not investment) in the modern factory, and more than embryonic planning within the giant corporation itself and in the Pentagon; and these are of course harbingers of the socialized and planned economy to come.* But to find evidence of socialization and planning in the miserable speculative shenanigans which take place in parts of the financial superstructure of the corporate economy—and it is from this area that F&O derive most of their "evidence"—seems to me to betray a woeful lack of that sense of proportion and historical perspective which is so crucial to the fruitful practice of political economy.

The Typical and the Untypical. This brings me to what in the final analysis has to be one of the most damning criticisms of the whole Fitch/Oppenheimer performance. They do not understand the necessity, for scientific purposes, of grasping and focusing on what is typical and ignoring or relegating to a secondary position what is untypical. Instead, they seize upon any facts (or "facts") that lend support, or seem to lend support, to their preconceived ideas, without ever bothering to ask whether the phenomena they are dealing with are typical or untypical.

How else, for example, could one explain using the case of Howard Hughes (Part II, pp. 86-91) to illustrate *any* generalization about the U.S. economy? ("The Hughes case," F&O conclude, "is a spectacular example of the dominant role external finance demands to play in the corporate world.") Hughes, to put it crudely, is a billionaire nut who makes great copy for the popular magazines precisely because he operates outside all the norms of the system.

But even more revealing of F&O's failure to grasp even the first elements of scientific method is their answer to an absolutely correct observation by James O'Connor. "The picture

* This does not imply that socialist planning takes the same form as the planning of giant corporations and the Pentagon. Winter's harbingers of spring are by no means the same as spring.

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of a few finance capitalists," O'Connor wrote (in MONTHLY REVIEW, December 1968, p. 32), "manipulating stock, acquiring huge overnight profits, and frantically putting together and taking apart industrial empires with an eye to immediate financial gain is simply not consistent with what is known about managerial decision-making in the vast majority of large corporations today."

To this F&O reply: "But 'immediate financial gain' is exactly what the conglomerate 'movement' was all about, and exactly what the railroad and utility 'diversification' efforts are aimed at achieving." (Part II, p. 114) In relation to railroad and utility diversification this is almost certainly not true: long-run rather than immediate gain is the only aim that makes sense. But this is not the point. O'Connor made a statement about "the vast majority of large corporations today," in other words, about *typical* corporate behavior. From F&O's answer one can only conclude that they either do not know what this means or do not understand its decisive importance for the subject under examination.

Penn Central. According to F&O, "The Penn Central illustrates . . . the untrammeled dominance of finance capital in the stage of corporate senescence." (Part II, p. 105) The evidence for this is at first sight rather impressive. "Overall, before the bankruptcy in April 1970 [actually it was in June 1970], the fourteen [Penn Central] board members included eleven men with fourteen interlocks with twelve commercial banks. The twenty-three-member board of the Penn Central Transportation Co., which manages the railroad, had nineteen interlocks with fourteen commercial banks." (p. 107) Furthermore, the big banks held large amounts of Penn Central debt: First National City Bank—$387 million, Morgan Guaranty—$91 million, Chemical Bank—$20 million, Chase Manhattan—$8 million. (table 5, p. 110) All in all, it would appear that here at any rate is a case in which F&O are justified in claiming that the banks had "an unassailable position." (p. 109) And the way they used this position indicates to F&O that "they seemed anxious to make off with everything but the tracks themselves." (p. 114)

And yet if we look at what actually happened at Penn

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Central, we get quite a different picture. The banks, for all their apparent power, got not "everything but the tracks" but bad debts and huge financial losses. In a story on bank loan losses, *Business Week* (June 28, 1971) wrote:

> New York stock dealer M. A. Schapiro & Co. estimates that loan losses in 1970, mostly because of the Penn Central debacle, were the heaviest for any single year since the 1930s. The ten members of the New York Clearing House Assn. ran aggregate net loan charge-offs of $191.5 million. And the *New York Times* made an interesting document public this week: an internal message to senior officers from Chairman Walter Wriston of First National City Bank of New York. Citibank was the Penn Central's lead bank and, in the message, Wriston concedes that the bank last year had to revise "our net loss estimate upwards to $47.7 million, or more than four times as much as originally anticipated."

None of the possible advantages derived by the banks from their relationship to Penn Central—which, from F&O's account, were not very impressive anyway—could possibly have compensated for such enormous loan losses.

What is the explanation? That the banks, though firmly in control, were too stupid to protect their own interests? Perhaps there is an element of truth in this. But there is a much more plausible explanation, namely, that the banks were hoodwinked by a crooked management into approving and pouring money into what was dressed up as a profitable diversification program but was in fact a series of investment fiascos, from at least some of which top Penn Central management people personally profited. Let me quote again from *Business Week*'s report on bank loan losses:

> Looking back at Penn Central now, Woodruff [executive vice-president of Manufacturers Hanover Trust Co.] feels: "We were awed by its size. We should have had more information about the company. But I've heard that Penn Central financial people were adroit in avoiding giving information."
>
> Some government banking officials put it more bluntly: Penn Central's financial data were "fabricated, and bank credit groups just didn't pick it up until too late."
>
> Some bankers have a "there, but for the grace of God, go I" feeling about Penn Central. Says a senior executive of one of New York's six largest banks, "We had a less difficult time than others

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did because a real smart young vice-president here spotted trouble. We gave them no unsecured loans, even though Gorman"—Penn Central's last chairman—"was a member of our board."

Banks and other investors have of course been swindled and victimized in similar ways throughout capitalist history, and no doubt will continue to be in the future. For my part, I would not want to draw any heavy lessons from the episode. But if I were in F&O's shoes, I would be more than reluctant to cite it as an illustration of "untrammeled dominance of finance capital."

Baran and Sweezy on Profits. My purpose has been to criticize F&O's essay, not to defend Baran and Sweezy. But I cannot let them get away with blatant misrepresentation. On page 75 of Part II, they write:

> Of course, for managerialists, corporations never lose money. The surplus keeps rising, along with the real wages of the working class. This is the heart of the matter. The unarticulated premise of Sweezy and Baran's account of corporate finance is the *invulnerability of monopoly profits.* Internal funds are sufficient because the flow of profits grows ever wider and unchecked. But profits do fluctuate, and the business cycle does exist. . . .
>
> Beginning in 1965, managerialism notwithstanding, United States profits fell. . . . (Emphasis in original.)

The statement is absurd and shows either that F&O cannot understand a theoretical argument or, if they did understand it, that they have shamelessly distorted it. The thesis of *Monopoly Capital* is that there is a *tendency* for surplus to rise but that monopoly capitalism fails

> to provide the consumption and investment outlets required for the absorption of a rising surplus and hence for the smooth working of the system. Since surplus which cannot be absorbed will not be produced, it follows that the *normal* state of the monopoly capitalist economy is stagnation. With a given stock of capital and a given cost and price structure, the system's operating rate cannot rise above the point at which the amount of surplus produced can find the necessary outlets. And this means chronic underutilization of available human and material resources. . . . Left to itself —that is to say, in the absence of counteracting forces which are no part of what may be called the "elementary logic" of the system—monopoly capitalism would sink deeper and deeper into a bog of chronic depression. (*Monopoly Capital,* p. 108.)

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In various other parts of the book, especially chapter 8 ("On the History of Monopoly Capitalism"), this theory is applied to the analysis of all or parts of the last hundred years or so of U.S. history, and nowhere is there anything which could conceivably be interpreted to mean what F&O say in the above-quoted passage. And, to cap it off, the statement that beginning in 1965 U.S. profits fell is simply not true. Here are the relevant official statistics (*Economic Report of the President,* 1971, p. 282):

CORPORATE PROFITS (BEFORE TAXES) AND INVENTORY VALUATION ADJUSTMENT
(billions of dollars)

	All Industries	*Manufacturing*
1960	49.9	24.4
1961	50.3	23.3
1962	55.7	26.6
1963	58.9	28.8
1964	66.3	32.7
1965	76.1	39.3
1966	82.4	42.6
1967	78.7	38.7
1968	85.4	42.4
1969	85.8	41.8
1970	77.4	34.1

It will be seen that total profits increased sharply in both 1965 and 1966, and for the whole period 1960-1970 went up by 55 percent despite the cyclical decline of 1970. The other decline of the decade, in 1967, was also of a cyclical nature. And yet a few pages after the passage quoted above, F&O can blandly assert: "As we have seen, when profits turned down in 1965, corporations began to rely increasingly on external finance."* (Part II, p. 93) It should not be necessary to remind them that when one finds misstatements of "facts" about which one has knowledge, one is not inclined to have much confidence in an author's reliability in other areas.

* This statement should also be evaluated in the light of F&O's own figures (see p. 10 above) showing that the dividend payout rate sharply declined during the 1960s. With profits rising and payout rates failing, it is clear that corporations have never before been so amply provided with internal funds.

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III

In conclusion, I should like to return briefly to the question which F&O pose at the outset: Who *does* rule the corporations?

The best short answer, I think, is that *monopoly capital* rules the corporations, *including not only industrials and utilities but also banks and other profit-making financial institutions.* I do not mean this in any metaphysical sense: the corporations are of course run by people, not by abstractions. But the people are of no interest in themselves. As Marx said in the Preface to the first edition of Volume I of *Capital,* "Here individuals are dealt with only insofar as they are the personifications of economic categories, embodiments of particular class relations and class interests." The question is what economic categories, what class relations, what class interests do the people who run the corporations personify and embody?

F&O want us to believe that there is a basic split within the capitalist class between the industrial sector and the financial sector, that the two have different and conflicting interests, and that it is the financial sector which holds the upper hand and imposes its will on the industrial sector. This thesis is implicit throughout the whole essay and is stated explicitly in the following passage (Part III, p. 46):

> Radicals . . . like to explain the manifold irrationalities of capitalism by observing that it is profits, not production, that turn the gears of modern industry. But this formulation too has now become inadequate. Just as production and sales are no longer ends in themselves [who, beside bourgeois managerialists, ever said they were?], neither are industrial profits—at least for the stratum of the bourgeoisie that controls the giant corporation. Just as production must contribute to sales and sales to industrial profits, so too industrial profits must contribute to the appropriation of financial profits by the corporate oligarchs. Specifically they must contribute to the appreciation of common stock values; to increasing flows of dividends; to larger commissions for investment bankers; and to larger interest payments accruing to commercial bankers. The key point here is that the pursuit of financial profits can be partially dissociated from the pursuit of industrial profit.

Though they do not say it in so many words, it is clear from the examples they cite and the way they interpret them

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that F&O believe not only that the pursuit of financial profit is distinct from the pursuit of industrial profit—this indeed is self-evident—but that in pursuing their special interests the financiers regularly act in a way to reduce the long-run profit-making potential of the underlying industrial system. This amounts to saying that the rulers of the corporations do not personify the economic category of capital as such and do not embody the class interests and class relations of the bourgeoisie against the proletariat. Their primary concern is not to maximize the total pool of surplus value but rather to maximize the amount of surplus value accruing to them even if this means reducing the total pool. In other words those who control the corporations, according to F&O, do not represent the capitalist class as a whole but a particular segment of the capitalist class which has its own special interests and acts as a debilitating parasite on the entire society. According to this theory, finance capital is not only the enemy of the proletariat. It is also, and in a more immediate sense, the enemy of industrial capital. This follows from the circumstance that finance capital is supposed to enlarge its take not by increasing the exploitation of the working class but by milking industrial capital. F&O are thus positing the existence of a basically antagonistic contradiction within the ruling class.

It is important to understand that what is at issue here is not merely struggles among contending groups and factions of the ruling class over the division of surplus value. Such struggles, many of which take place in the financial sphere, have always existed under capitalism and always will exist as long as the system survives. But Marxian theory has never treated them as a manifestation of antagonistic contradictions: as against the rest of society, the capitalists form a unified class which intuitively understands that its primary interest lies in maximum possible exploitation of the working class. Compared to this, the struggle over the division of the spoils is a secondary concern.

F&O, whether they recognize it or not, are proposing a fundamental revision of this central tenet of Marxian theory. If they were right—and this is at bottom a factual, not a theoretical, question—the implications not only for economic analy-

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sis but also, and perhaps even more important, for political strategy would be far-reaching indeed. But they are *not* right. The vast majority of large corporations, and this includes banks and insurance companies as well as industrials, are run by people whose primary aim is the maximization of the profits of the companies to which they are principally attached. This ensures that the policies they adopt will, apart from mistakes and miscalculations, operate to increase the pool of surplus value, which is precisely the common interest binding the capitalists, despite all their internecine quarrels and conflicts, together into a single and basically unified ruling class. This is what I mean when I say that monopoly capital rules the corporations: *monopoly capital is the economic category personified by the individuals who happen to sit in the executive suites and boardrooms of America's giant corporations.*

The question naturally arises as to whether this view contradicts the Leninist thesis of the dominance of finance capital in the imperialist stage of capitalism. I do not think so. The truth is that today's giant conglomerate-multinational corporations—and most of them have both characteristics—are essentially financial, not production, units. In the typical case, these financial units both own and control dozens or even scores of diverse producing subsidiaries, all operated in such a way as to maximize the profits of the group as a whole.

This constellation, I submit, corresponds perfectly to Lenin's concept of finance capital, by which he meant the *coalescence* of industrial and financial interests which emerges in the stage of monopoly capitalism. In the United States this coalescence reaches its apex precisely in the concentration of power in the hands of a few hundred giant corporations. It is this concentration of economic power which makes possible not only a more effective exploitation of labor but also the development and application of more advanced technology and a closer cooperation with the state in the profitable utilization of economic and social resources. It also makes possible the appropriation of a larger share of surplus value from other competitive or less-monopolized economic sectors: small competitors, other weaker industries, suppliers of machinery, retail and wholesale trade, etc. In addition, monopoly capital squeezes whatever it

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can from the ever-fluctuating stock, bond, and real estate markets, and by utilizing the savings that accumulate throughout the economic system via banks, insurance companies, and other financial intermediaries. It follows that giant corporations in manufacturing, extraction of natural resources, public utilities, and provision of services are not, and cannot be, purely "industrial" in a world of mixed monopoly. They become, and are able to operate as, monopolies only by exercising as much *control* as they can possibly muster in order to extract for themselves as much of the social surplus as is feasible. To possess themselves of the necessary control, the giant corporations must operate in a wide diversity of areas and through many channels—in the capital and money markets as well as in industrial markets. And it is this which provides the basis for the kind of coalescence of industry and finance which is of the very essence of monopoly capital.

Since such coalescence assumes concrete forms in the course of struggles among greedy centers of power, each seeking greater control and maximum profits for itself, the particular forms of the coalescence vary over time, as between different countries, and from one area of the economy to another. The strategy of each power center must take full account of the maintenance of the value of already-accumulated capital, the avoidance or minimization of risk, and the probable countermeasures of rival giants. The dividing lines between intensive competition and various partnership arrangements among the various capitalist units and groups are in no sense hard and fast. Thus a General Motors will be lavish in spending for advertising and promotion, thus sharing its surplus with TV, radio, and the printed media. It will also willingly share some of its profits with commercial and investment bankers, but at the same time reserve for itself a huge financial plum in the form of a credit company to finance installment sales of its products.*

* If F&O were right that GM and the other automobile companies are under the control of banks, it would be completely incomprehensible why they should be permitted to retain enormous (and enormously profitable) subsidiaries (General Motors Acceptance Corporation, etc.) to finance automobile purchases, a business in which they compete directly with the banks.

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What must never be lost sight of, in discussions of the various ways in which the giants share and struggle over the surplus, is that the source and size of what is being shared and struggled over lies in the labor-and-production process. Capitalists in all branches of the economy understand this well enough, even if their academic ideologists do not. And if by chance in their greed they ignore this first principle of capitalist existence, sagging commodity and financial markets soon bring them back to their senses. In the final analysis, it is this production and reproduction by daily life of an awareness of where the golden eggs come from which, willy nilly, welds the capitalists together into one great single interest group.

(October 15, 1971)

Since it is not for us to create a plan for the future that will hold for all time, all the more surely what we contemporaries have to do is the uncompromising critical evaluation of all that exists, uncompromising in the sense that our criticism fears neither its own results nor the conflict with the powers that be.

—Karl Marx

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NASSERISM IN PERSPECTIVE

BY MAHMOUD HUSSEIN

The death of Gamal Abdel Nasser was a momentous historic event. It was on learning of Nasser's death that millions of Egyptians and Arabs took cognizance of the place he occupied in their lives. They reacted as if something within each one of them had been shattered, as if something in the Arab world had just come to an end.

Five million Egyptians—the uprooted masses from the countryside and the cities, workers, small holders, students, civil servants—gathered in Cairo around his coffin on the occasion of his funeral. The entire Arab world experienced his death as a common bereavement transcending all internal boundaries.

Until then the Egyptian and other Arab peoples had merely *experienced,* with varying degrees of intensity, their relationship to Nasser. Henceforth they were gradually to *become conscious* of this relationship.

Why did Nasser occupy such a place in the minds of the Egyptian masses and, beyond the confines of his country, of the masses in the entire Arab world? To answer this question is to expose the character and function of the Nasser regime.

Mahmoud Hussein is the author of *Les Luttes de Classes en Egypte* (Paris: Maspero, 1969), an English version of which is being prepared for publication by MR Press. This article was written several months ago and was translated by Alfred Ehrenfeld.

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When Nasser and the "Free Officers" began to rule Egypt in 1952, the country was in the grip of a hopeless structural crisis. It was dominated by the British army of occupation and by an indigenous class of corrupt, semi-feudal big landowners and big bourgeois associated with foreign interests, who were utterly incapable of pulling the country out of stagnation and misery. Egypt was paralyzed by institutions which systematically prejudiced national in favor of foreign elements—the English or French language, Western credentials and tastes, links with Europe, were favored over the Egyptian Arab language, Egyptian skills and traditions, Egyptian social roots. Under those circumstances, every Egyptian was placed in a position of irremediable inferiority with respect to the foreigners and the fringe group of their Egyptian hangers-on.

A vast patriotic and democratic mass movement which had been shaking Egypt ever since the end of the Second World War was gradually undermining the Egyptian social structure. But in the absence of a consistent revolutionary leadership, this movement suffered successive repressive blows without being able to unite with a view to waging an anti-imperialist and anti-Zionist people's war.

The British army of occupation was growing smaller but did not withdraw from the Canal Zone. Zionist expansionism became more assertive. The monarchy was in a state of utter decay but continued to hold on stubbornly. A clique of politicians from another age held a tight grip on all important government posts.

Even as he was stemming the postwar popular tide, Nasser represented himself as the man who would stand up to these enemies and pull Egypt out of humiliation and stagnation by smashing both the privileges and archaic traditions of the indigenous ruling class and the structure of foreign domination on which this class was based.

In 1955 he recognized People's China and began to purchase arms from Czechoslovakia, thus breaking away from the Western orientation which, until then, had been imposed on Egypt. The Bandung Conference had already witnessed his emergence as an international figure; when, on July 26, 1956, he announced the nationalization of the Suez Canal, he be-

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came the hero of three oppressed continents. When the Israelis, the British, and the French launched their tripartite aggression, he stood his ground and turned this confrontation into a political victory which gave him throughout the Arab world the stature of the great conquerors of the past.

Within a few years Egypt achieved political independence, national dignity, and exceptional international influence. From this new position, and with Nasser as her spokesman, Egypt now became the chief adversary of Israel, recaptured the dominating economic positions which the British and the French had seized within the country, and effectively resisted, in 1957-1958, American pressures designed to impose the Eisenhower Doctrine on the Middle East, and, in 1959, pressures from the Soviet Union, even though the latter had granted Egypt a considerable loan and was committed to provide financial and technical assistance in the building of the first stage of the Aswan High Dam. And in 1960 Egypt rejected pressures from the West Germans who tried to capitalize on the negotiations for the financing of the second stage of the High Dam to acquire controlling rights over the Egyptian budget.

Domestically, Nasser began to undermine the ruling class by whittling down its political and economic powers. This enabled him to restore a temporary dynamism to the Egyptian economy.

The agrarian reform, the public humiliation of the big landowners who tried to offer armed resistance to the restrictions placed on their property, the nationalization of Egyptian banks and of industrial and commercial enterprises—all these achievements were viewed by the people as its own victories, for they shattered the prestige and power of the perennial targets of its class hatred. All these measures, accompanied by social reforms, led to an improvement in the working conditions of certain sections of the labor force, and enhanced the personal dignity of all poor Egyptians.

These achievements marked the first stage in the liberation of the impoverished classes from a stagnating society caught up in a web of semi-feudal fealties, and propelled them into a world in which the individual could largely rid himself of pre-

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capitalist constraints and gain increasing control over his or her own destiny.

Every peasant, every worker, every shopkeeper, every student felt that Nasser had avenged him on the individuals and institutions, foreign and indigenous, by which he had long been oppressed both as Egyptian and as individual.

The Arab world, whose will to unity came to be embodied in Nasser, was then in the grip of two contradictory currents. On the one hand, a tendency toward solidarity and unity, based on the Arab language and profound cultural affinities, and impelled by a common interest in establishing, in the face of foreign oppression, a political and economic community that would be immeasurably more powerful than any one Arab country by itself; on the other hand, a tendency toward separatism, fostered by big foreign powers interested in reinforcing and perpetuating inter-Arab divisions by smashing the still tenuous economic ties between the various regions of a largely pre-capitalist Arab world.

Beginning with the First World War—when the British and French imperialists forced the Arab world to submit to their joint domination—these divisions came to be sanctioned by the establishment of *distinct* states, political ruling classes, and economic ties, *individually* linked to the dominating metropolitan centers.

The trend toward unity in the Arab world was nevertheless strengthened whenever one or more of the Arab peoples won a victory over non-Arab enemies—the other Arab peoples viewed these victories as their own, and were thus inspired to assert themselves. This was notably the case of the Arab revolutions following the First World War, of the first stage of the 1936-1939 Palestinian revolution, and of the anti-imperialist popular movements in the wake of the Second World War. Inversely, the tendency toward separatism, disunity, and impotence was strengthened whenever one or more of the Arab peoples suffered a severe defeat. This was notably the case in 1948-1949 when Arab resistance forces, volunteers, and armies were defeated by the Israeli army.

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The establishment of the Israeli state was undoubtedly the most painful defeat that the Arab world as a whole had suffered in centuries. This state is based on the presumed "right" of the Jews—and only of the Jews—to live in Palestine. It therefore implies that the Arabs as such—and principally the Palestinian Arab people—*no longer* have the right to live freely on Palestinian soil.

Every inch of this land was *seized* by force from the Palestinian people. The expansion of the Zionist colony since the 1917 Balfour Declaration was possible only because the colonizers were endowed, with the aid of the imperialists, with a capacity for repression that exceeded the capacity for resistance of the Palestinian people and of its allies among the Arab peoples.

The Arabs, who have invested so much of their common historical identity in Palestine, had no longer even the right to move freely on Palestinian soil. The inhabitants of Palestine were stripped of their national identity and human dignity.

Israel is a foreign conquering power which intends, on the one hand, to liquidate the Palestinian Arab people and, on the other, to establish itself permanently and forcefully in the very heart of the Arab world, impose its cultural and technological superiority, and systematically stifle Arab impulses toward liberation and unity. The existence of Israel means that every Arab is, as Arab, permanently crippled.

The defeat of the Arabs by Israel had two consequences. In the short run, it dramatized their impotence and disunity in the wake of the amputation they had suffered. In the long run, it constituted so total a challenge to all Arabs that it held out the prospect of strengthening their unity, as Arabs, in a struggle against this challenge from a state which had become the chief stronghold of the foreign oppressors who were parcelling out the region among themselves.

In 1955-1956 the Arabs had hardly begun to recover from the shock of defeat. The first Palestinian commandos had reappeared in Gaza, and the anti-imperialist and anti-Zionist movement had been reactivated throughout the Mashraq, i.e., the Arab East. The first shots of the Algerian revolution had been fired, and the national movement in the Maghreb (the

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Arab West) was achieving a measure of success. But there was no decisive victory, no upheaval, no united Arab upsurge. There was only hope.

It was at this point that the nationalization of the Suez Canal and Egyptian defiance of the tripartite aggression began to precipitate matters by giving the Arab world its first taste of victory. The political defeat of the tripartite aggression was a defeat of the three powers that oppressed all Arab peoples, and especially of the enemy recognized as such by all Arabs—Israel.

This act of aggression exposed Israel as an instrument of direct intervention against any Arab country trying to rid itself of foreign domination, i.e., as a policeman in the service of the imperialists. Egypt thus came to represent all Arabs faced with the Israeli threat, and became the unifying focus for all Arab energies aspiring to liberation.

Hence the frenzied outbursts throughout the Arab world. In Jordan—a vast, Palestinian-Jordanian democratic upsurge; in Syria—left-wing nationalist victories; in Iraq—the revolution of 1958; in Lebanon—the anti-American revolt; in the Arabian peninsula—subversive anti-imperialist movements; in the Sudan—a new stage in the mobilization of the people; in Libya—the beginnings of popular action against the foreign bases; in the Maghreb—the upsurge of the patriotic movement inspired by the spreading Algerian revolution.

Egypt was for all of them a rallying center, a point of reference, a standard. Egypt crystallized their hopes for rebirth and for Arab unity. The union of Syria and Egypt in 1958 was a moment of indescribable enthusiasm, especially in the Mashraq. Nasser was at last *returning* Egypt to the Arab world after a long absence, enforced by British imperialism, which had been bitterly resented by the other Arab peoples.

Such were the achievements which Nasser personified in the eyes of the Egyptian people as well as in those of the Arab world.

But why were these achievements *identified with him personally,* and why did his death appear to put them all in jeopardy? Why did his death cause the Arab peoples to experience a profound sense of anxiety, to the point where they seemed almost unable to conceive of a future without him?

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Massed in its entirety in city streets and village squares, the Egyptian people began to realize that it had in effect *abandoned its political responsibility, its will, and its imagination to Nasser,* in exchange for the sense of pride which Nasser had restored to it.

Through these mixed feelings of gratitude and impotence, the Egyptian people drew up, spontaneously, a balance sheet of Nasserism. Nasser was the man who had raised them to a new level of dignity, but who had, at the same time, deprived them of the capacity to act independently of his will. This is why millions of Egyptians, *united* around his coffin, felt *abandoned.*

How did it come about that the Egyptian popular masses, whose sense of national identity and individual dignity had been so vastly enhanced during the Nasserist period, failed to achieve greater independent freedom and initiative, and that, on the contrary, they were politically crippled and reduced to impotence?

The reason is that *in reality* Nasserist policies systematically stifled this freedom and this initiative.

From 1952 to 1954, to be sure, the regime was viewed by the masses as primarily *repressive.* It was openly unpopular. In March 1954, it was almost toppled by a faction of the "Free Officers" allied with liberal politicians of the old regime. The abortive coup was enthusiastically applauded by all left-wing political organizations and, generally, by public opinion. Nasser was hooted in the streets and jeered at Cairo University.

During the first two years of the regime, in fact, its only feat was the suppression of all the political forces that had taken an active part in the Egyptian anti-imperialist movement; the British occupiers responded by agreeing, at last, to complete their withdrawal from the Canal Zone.

In 1955 the regime began to project a different image, and this marked the beginning of its period of glory. But the domestic political system, far from becoming more liberal, grew even more repressive. On the one hand, the security agencies spread their tentacles everywhere, spying, threatening, sowing suspicion and demoralization. On the other hand, the state power, after suppressing the independent popular organizations, created new political organizations designed to co-opt the dif-

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fuse aspirations of the various social classes and channel them toward the regime. It accomplished this by isolating them, by stifling their spontaneity and creativity, in brief, by preventing them from fusing into an independent mass current. Villagers and city dwellers must remain ignorant of their respective movements of revolt; the dispossessed masses, the workers, the students must remain ignorant of their respective aspirations; all contacts between villages or between university faculties must be cut off. Only the state power, at the top, must be in a position to gather up all the threads, have a comprehensive grasp of the situation, and retain the capacity for initiating national programs.

Even at moments of great national danger—during the summer of 1956 and the spring of 1967—the regime suppressed every truly independent popular initiative and left the masses, already ideologically mobilized against the enemy, without political and military leadership, without an offensive orientation, i.e., powerless to intervene in the great national events that unfolded without them.

Even while proving responsive to some of the aspirations of the masses, the state power crushed their movement, and stifled all independent class reflection on their part. It attacked the chief targets of the people's hatred—the Israelis, the British and the French, the old rulers—and won victories over them, but it acted without relying on the collective initiative of the masses and, on the contrary, by suppressing such initiative wherever it arose. It won their gratitude and admiration—even as it was reducing them to impotence. The suppression of every form of independent political expression was made into official regime doctrine, and was justified by the need to avoid at all cost a class struggle considered detrimental to the national framework. Independent mass action—even in connection with the anti-imperialist and anti-Zionist struggle—could not fail to provoke countermoves by the Egyptian propertied classes, i.e., exacerbate the class struggle. The state power viewed such a prospect as leading inevitably to the deterioration and ultimate paralysis of the national movement as a whole.

In excluding the masses from the political arena, the state power pursued the aim of representing itself as the sole deposi-

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tary of *national unity,* thus stifling all *class reflection* on the part of the laboring masses, all reflection on national problems in terms of their independent, revolutionary grasp of the world. By leading them to think that *the loss of their class freedom was the condition for the conquest of their national dignity,* the state power induced them *to accept their ideological and political alienation* as a national necessity. The state power, therefore, effectively repressed the mass movement only to the extent to which it co-opted its aspirations.

On the other hand, this alienation was represented as necessitated by the "Egyptian road to socialism," i.e., by the Egyptianization and nationalization of the principal means of production. The state power thus reduced the socialism to which the broad Egyptian masses aspired to a number of administrative measures, to an objective that could be achieved from "above," independently of class struggle and any form of popular initiative.

This is why the masses ceased temporarily to act and think independently with respect to the great political options facing the country—struggle against imperialism and struggle against capitalism.

The question now is this: who, under these conditions, benefited most from the state power's monopoly of all initiative?

To answer this question, we must examine the historical circumstances under which the Nasserist regime came to power.

In 1952 all classes in Egyptian society—with the exception of the indigenous ruling class—felt, in varying degrees, oppressed by the Anglo-French imperialists, humiliated by the State of Israel, and victimized by the stagnation and misery inflicted by the prevailing social structure. All these classes aspired, in varying degrees, to change this state of affairs.

But the national movement at that time was divided by two distinct tendencies.

The first tendency corresponded to the interests of the vast laboring masses, both rural and urban. These classes were totally victimized by the system. They had a stake in the *total destruction* of the system and, to this end, in the steady mobilization of their own forces with a view to waging a protracted

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people's war against both imperialist and Zionist domination and the indigenous social forces on which this domination was based. Only such an approach could guarantee that the masses would eventually—through the slow process of learning to master the laws of politics and revolutionary warfare—inflict a crushing defeat upon all their enemies, including the Zionist stronghold, achieve complete independence, and bring about the authentic cultural and economic rebirth of Egypt. This approach was first implemented in the early 1950s in the people's armed struggle against the occupiers of the Canal Zone, in the *jacqueries* against the semi-feudal aristocracy, and in the extensive and increasingly radical and violent urban mass movement.

The second tendency derived from the interests of the petty-bourgeois "elite" (the national cadres of the state apparatus and especially of the army) and of the essentially rural middle bourgeoisie. These strata, who were of Egyptian origin, were stymied under the old regime by its anti-national structure and by the obstruction of Egyptian capitalist development; but they had possibilities and hopes for social growth, provided there were a dynamic national capitalist development. Profound class distinctions separated them from the poor and dispossessed laboring masses, whom they despised and feared.

This is why these classes had a stake in seizing control of the national movement so as to orient it in a reformist direction. Their aim was to seize power "from above" without involving the masses, Egyptianize the state, and give new impetus to national capitalism by freeing it from Anglo-French imperialist constraints. They hoped thereby to strengthen the state's hold over the masses, i.e., to arrest the class struggle which, within the national movement, had begun to undermine the social structure, and held out the prospect of eventually jeopardizing the position of the propertied and privileged classes, i.e., the capitalist road itself. This tendency found its principal expression in the ideas of the "Free Officers."

It was this group that triumphed in July 1952. Aided by the disarray of a decaying regime, the "Free Officers" occupied the key posts in the army, and from this vantage point launched a successful *coup d'état*. Encouraged by the new state power,

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the middle and lower army cadres together with the entire petty-bourgeois "elite" began their social rise, while the middle bourgeoisie, for its part, seized control of the rural economy.

This petty-bourgeois "elite," especially its representatives in the army, became the pillar of the new regime. It gradually acceded to the most powerful state posts, Egyptianized them, and secured an ever tighter grip on all political and economic activities. It eventually became a state bourgeoisie, the ruling branch of the class which controlled the nation's principal means of production.

Where did the "Free Officers," who based themselves on an *emerging class* and ruthlessly repressed the patriotic movement of the masses, find the *necessary forces* to achieve this transformation and win their victories over the foreign and indigenous oppressors of Egypt? The answer is that they benefited from a temporary but very favorable international and national conjuncture.

Nationally, the process was made possible by the ideological, political, and economic crisis of the old ruling class, and by the weakness of the popular opposition organizations. This situation enabled the new state power to defeat all opposition from the Right as well as all challenges from the Left, and gain absolute control of the political arena. Internationally, the state power capitalized on the dwindling strength of the two principal imperialist powers which had, until then, dominated Egypt. It rid itself of their presence in Egypt by making active overtures to the American imperialists and Russian neo-imperialists, who were both trying to supplant the British and the French. By exploiting the rivalry between the Americans and the Russians, the state power managed to prevent either from gaining a controlling position in the country. It thus secured, internationally, a provisional but considerable margin for maneuver on the capitalist world market, while at the same time obtaining extensive financial support from the two rival camps.

By exploiting both its monopoly of all domestic political initiative and its provisional margin for international maneuver, the new state power was able to shake up the privileges and customs of the traditional bourgeoisie, bring about the gradual accession of the new bourgeoisie to all leading state posts, and

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with the aid of massive foreign financial and technological support clear the way, at least during the period 1955-1965, for the development of Egyptian capitalism.

It was during this period that the Egyptian state power acquired, internationally, a flexibility of movement and a political influence that exceeded by far its possibilities for independent political and economic development.

By exploiting all these international and domestic assets, Nasser was able to represent himself as an "arbiter" between the propertied classes and the laboring classes and thus assume the role of *moderator* of the class struggle.

To the masses, whom he was depriving of their freedom, he offered the satisfaction of seeing the occupiers expelled, Israel defied, and the traditional bourgeoisie flouted. The Egyptian property owners whom he was shielding against the people and the state bourgeoisie whom he was helping to accede to the status of a new ruling class were subjected to rigidly enforced political and administrative guidelines, without which the changes required by the development of state capitalism could not have been initiated.

Representing himself as the "ultimate recourse" of the entire people, and dealing harshly both with the abuses of the new class and with popular revolts or initiatives, Nasser, during this decade, came to be viewed by most Egyptians as independent of the contending classes in Egypt, as well as of the various imperialist powers throughout the world.

The moral authority of the state, practically nonexistent during the final years of the monarchy, was strengthened. It tended, however, to be increasingly concentrated in the person of Nasser. In fact, the state functionaries who acted as intermediaries between Nasser and the popular masses—the close collaborators of the Rais, the police, the village "omdehs" (mayors), factory managers, the lower-level functionaries of the Arab Socialist Union, etc.—were regarded as agents of repression, and became the focus of the people's grievances, disappointments, and anger, which were thus diverted from the top leadership. The pervasive local deficiencies of the regime were imputed to lower-level or middle-level functionaries, whereas the political errors and setbacks of the regime were attributed to

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leading members of Nasser's entourage. (All the "Free Officers" who played an important role in planning the 1952 coup were eventually discredited.) Nasser alone was credited with victories—and absolved from disasters. His authority was absolute. Nasser's authority, however, helped to legitimize the official representatives of the regime. Despised for their repressive powers, they were tolerated for their proximity to Nasser. The prestige of the Rais thus endowed the regime as a whole with a temporary stability, and provided an ideological cover which shielded the rising new bourgeoisie against the growing anger of the masses.

In brief, the ambivalent character of the ideological relationship between Nasser and the masses—the masses experienced this relationship with mixed feelings of affection and impotence—reflected their concrete needs at a time when the petty-bourgeois "elites" and the middle-bourgeois strata, who had been oppressed until 1952, were achieving their liberation.

We must still draw up a balance sheet of this period.

Domestic social reforms and industrial development based on state control of the principal means of production fostered Egyptian capitalism—but only relatively, and for not more than a short decade. Having seized control of the decisive political and economic levers, the new bourgeoisie acquired capitalist status and privileges—it made an alliance with the old bourgeoisie, emulated its ways, and eventually inherited its moral, political, and economic crisis.

Since the popular masses had been reduced to impotence, national independence and national development—the chief rallying cries of the regime—were now doubly doomed. Both the logic of capitalist growth of the new bourgeoisie and the logic of the global balance of forces left the anti-popular bourgeois national classes helpless against the combined power of contemporary imperialism.

State funds, deriving from the exploitation of the laboring masses and from massive injections of foreign capital, are being increasingly diverted from their official destination—accelerated national development designed to benefit the new bourgeoisie. This creates new legal or surreptitious channels for private enrichment, disorganizes production, and causes fortunes to be

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squandered on luxury goods. At the same time, the living standard of the urban and rural workers, who remain as exploited as ever, began to deteriorate steadily in the early 1960s, after a brief period of improvement.

On the other hand, the rivalry between the USSR and the United States resulted in decisive advantages for the USSR. Under the pretext of offering Egypt "anti-imperialist and anti-Zionist support," the Russians gradually assumed the place formerly occupied by the British. Russian "economic aid," which benefits the new capitalists in the ruling class much more than it helps to foster the overall national economy, has created a growing Egyptian indebtedness to the USSR. The army, military matériel, and the industrial infrastructure, are all under Russian technical control; and Egyptian cotton production is mortgaged to the USSR for the next fifty years. The Russians have thus acquired exorbitant pre-emptive rights over Egypt's budget and diplomacy.

Finally, far from growing weaker, Israel—the immediate and permanent enemy, responsible for crystallizing the popular patriotic aspirations which Nasser had co-opted—is becoming increasingly bellicose and expansionist, occupies the Sinai Peninsula, defies the Egyptian army in the Canal Zone, crosses the Strait of Tiran with impunity, and is forcing the Egyptian people to confront the question of national dignity in all its acuteness.

What general conclusions can be drawn from the Nasserist regime's policy of Arab unification?

This policy was initiated in the same spirit as the policy of Egyptian "national unity"—it reflected the general interests of the emerging state bourgeoisie. It was based on the slogan of "unity of all Arabs against Israel," and was designed to enable the Egyptian state power to mobilize the economic and military potential of the Arab world. Accordingly, every patriotic initiative that failed to subordinate itself fully to official strategy with respect to the "struggle against Israel" (thus challenging the hegemony of the regime), was regarded as a betrayal of the liberation of Palestine and of Arab rebirth.

In the wake of the regime's great victories in 1956-1958, the enterprise of Arab unification came to be dominated by the

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notion that *the attitude toward Nasser and his policies was a criterion of loyalty to the ideal of Arab unity.* This enabled the regime to make unequivocal distinctions between the friends and enemies of unity.

The formidable ideological pressures that came to be exerted on the independent Arab patriotic movements have always been justified by the allegation that these movements were extreme leftist, i.e., inspired by groups or parties adhering to Marxism (e.g., the Syrian or Iraqi Communist parties), or under the influence of petty-bourgeois nationalists opposed to Nasserist tutelage (e.g., at various times, certain factions of the Baath party, and the regime of General Kassem in Iraq).

These pressures frequently had the result of discrediting extreme left groupings which represented themselves as opposed to Nasserism but failed to offer the Arab masses an alternative revolutionary program. They provoked, moreover, splits of varying degrees of importance within nationalist petty-bourgeois ranks, with certain tendencies opting for loyalty to the Nasserist state power and others deciding to oppose its predominance and trying, with varying degrees of conviction, but always unsuccessfully, to seize for themselves the torch of anti-Zionist Arab unity.

The Nasserist state power thus gradually created a *political vacuum* in the rest of the Arab world. The Arab popular masses, in fact, began to trust Nasser much more than they did the local political forces soliciting their support (except in the Maghreb, and for a brief period, in Iraq under Kassem). This policy, however, could not fail to prove disastrous. The Egyptian state power provided *no concrete political outlet for the energy and enthusiasm of the Arab peoples, and for their need to participate in the struggle* against Israel and against the imperialist forces active in the region. It demanded their trust and passivity, and their support for its own initiatives.

When the masses, for their part, took independent initiatives—not infrequently on its behalf—it did all it could to crush them.

When, in 1958-1961, the Syrian political organizations unanimously refused to disband, the result was that all student and left-wing working-class groupings spent the period of Syrian-

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Egyptian union in jail or were forced underground. The "united" political institutions of the UAR were at the same time taken over by the most traditional political elements, and the masses passed within a period of three short years from delirious joy to bitter disappointment.

In 1959 the Egyptian regime encouraged an abortive coup against the Kassem regime, which enjoyed the support of the left-wing forces in Iraq, and in 1963 it morally and materially helped to install a fascist Iraqi regime which assassinated tens of thousands of Communists and democrats.

Intervening in Yemen in support of the republican regime that came to power in the wake of a coup in September 1962, the Egyptian expeditionary corps behaved like conquerors, flaunting their contempt for the local population and alienating all progressive Yemenites. It waged a traditional war against the reactionary royalist forces backed by Saudi Arabian money and European mercenaries, became gradually bogged down in a hostile political and geographical environment, and was eventually forced to beat an ignominious retreat and concede the ill-disguised victory of the reactionary forces.

This war sapped much of Egypt's military and economic capacity, seriously undermined the prestige of the Egyptian army throughout the Arab world, and made it easier for Israel to launch her June 1967 aggression.

During this same period the regime sanctioned the formation of the Palestine Liberation Organization (PLO)—a Palestinian organization financed by the Arab League and staffed by bureaucrats, whose Liberation Army was organized along the lines of a traditional army. This move was designed to deflect the independent Palestinian national-liberation movement which Al Fatah was beginning to orient toward a people's war in Palestine. But far from strengthening the movement, it did much to divide it and to divert a section of the Palestinian patriotic forces from the real battleground by immobilizing them in barracks or on parade grounds.

Egyptian policies, in the rest of the Arab world even more than nationally, divided the national forces and strengthened Arab conservative tendencies. In its confrontation with Israel—this confrontation had become the focus of Arab hopes

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for rebirth and unity—the Arab world thus proved weak and fatally indecisive.

It took no more than five days for the Egyptian military catastrophe to bring an end to twelve years of popular hope and begin to expose the real interests of the ruling class spawned by the Nasser regime—to allow Nasser to speak of struggle against Israel and imperialism as long as this served the purpose of maintaining the regime's political hegemony and economic interests in the Arab world, but as soon as the struggle began, to flee from battle and demand peace with Israel.

The definitive takeover of the state economic apparatus by the new bourgeoisie in 1965-1967 and the military fiasco in Yemen marked the beginning of the Nasser regime's decline. In 1967 this decline turned into a national catastrophe. Thenceforth all the achievements of the regime, until then considered indisputable, began to be questioned.

A policy of compromise with Israel was now initiated under the twofold pressure of the regime's moral defeat and Egypt's new protectors, the Russian social-imperialists, who were re-equipping the Egyptian army so as to enable it to negotiate on more favorable terms, but also, and more importantly, so as to strengthen their own economic and military influence on the regime.

This situation has made it absolutely impossible for Egypt to achieve full independence and turn defeat into victory without the mobilization of the only force capable of defending national independence—the armed popular masses. Israel's occupation of the Canal Zone and the regime's economic and military dependence on the Russian neo-imperialists have placed the regime before two irreconcilable alternatives—either the mobilization and arming of the masses for a protracted war of liberation against the invader and against all the foreign and indigenous forces ready to compromise with him, or the repression of the masses and the initiation of a long process of negotiation, which must inevitably lead to the recognition of the *de facto* Israeli state, and to the loss of Arab sovereignty over Palestine and over the Suez Canal, Sharm El Sheikh, and part of the Sinai Peninsula.

The regime was forced to adopt the second alternative,

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which corresponded to the imperative need to consolidate the state bourgeoisie, whose class positions had been seriously undermined in June 1967. In the wake of the defeat, this state bourgeoisie was not only accused of corruption, but also—and this charge was much more serious—of betraying the national interest and of utter economic incompetence. What was thus questioned was, in fact, *its ability to be a ruling class,* and this at the very time when the outraged masses were least inclined to condone its crimes. The masses, on the contrary, wanted to push Nasser to deal harshly with the state bourgeoisie and to resume the war, but this time as a people's war, independent of the traditional bourgeois framework.

The regime rapidly set about revamping the regular army and the economy under the slogan "everything for the war," but it did so in a spirit of militarism, foreclosing any intervention and control by the masses. This enabled it, within a span of two years, to reestablish the two main pillars of the state bourgeoisie. A few scapegoats were sacrificed for the sins of their class. The class itself was restored to power.

The state bourgeoisie not only pushed the state power in the direction of making growing concessions to Israel, i.e., of abandoning the great enterprise of Arab unity; it also tried to achieve permanent class status by transforming itself from a caste of high functionaries, dependent for their powers on an arbitrary state power, into a capitalist class with access to important posts or solid connections in the state apparatus, with legal means of investing private capital (in the mixed and private sectors), and with increasing legal rights over the workers. Finally, it acquired even greater possibilities for pressuring the executive state power by establishing veritable zones of influence around leading members of the regime.

These consequences of the course pursued by the regime in the wake of the June 1967 defeat were also the chief reasons for the growing impatience of the Egyptian masses. Faced with the restoration to power of the state bourgeoisie, and with strong capitulatory tendencies in the regime, whereas the masses desired an effective resumption of the war, the latter gave violent expression to their impatience and indignation through individual or collective actions (witness the popular revolts of February

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and November 1968). They alternated between anger and resignation; but in the absence of an effective popular alternative to the regime, there was no widespread criticism of Nasser's leadership.

After June 1967, the people's attitude to the Rais became even more complex and direct. It was the people who, on June 9, recalled Nasser to his post as supreme leader, at a time when he had been abandoned by the leading members of the regime and by the new bourgeoisie which had been enriched by his policies. The people believed that it had freed him from the bourgeoisie, that it had wrested him from the regime. And it expected him—at times impatiently—to organize the war and the reconquest of Egyptian dignity with respect to Israel.

In the aftermath of the war, therefore, the people had acquired a greater moral influence on Nasser's decisions. They were dimly aware of this, but lacked the means of imposing their will. They realized that Nasser wanted to free himself from this influence and regain absolute political control. But even though the masses had ceased to be submissive, they remained helpless. They had become increasingly lucid about the political realities they were experiencing, but were incapable of changing them. *When Nasser launched his war of attrition,* they continued to cling to the hope that he would launch an offensive against Israel which would eventually require a genuine mobilization of the people.

Since the scheme of passive "national unity" under the leadership of Nasser was never effectively challenged by the perspective of revolutionary anti-imperialist struggle, it again assumed its function of ideological constraint; since any independent initiative could play into the hands of the enemy, it was necessary to trust the Rais, and close ranks behind him.

Nasser's death at the end of September 1970 changed everything. The people now have no choice but to face the situation. Their political resignation—their acceptance of their own impotence—was the counterpart of their trust in Nasser. Now that Nasser is dead, it is no longer possible to speak of "regenerating" the regime from within; nor is it possible to expect his successor to restore Egypt's past glory.

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The fatherland is in danger and its command posts are no longer secure. It is no longer possible to avoid choosing between the road of capitulation and the road of general mobilization for a protracted war of liberation against Israel, in the hope that the situation will be miraculously salvaged "from above." National policies can no longer be left in the care of a Sadat.

Sadat has no legitimacy in the eyes of the broad masses. He is associated with the general discredit attaching to Nasser's entourage.

The state bourgeoisie, moreover, has a much stronger hold over him than it had over Nasser. Nasser was its spiritual father and, in a sense, its creator. As long as Nasser was alive, it could only formulate its demands with varying degrees of urgency—it could not impose them. But now the situation has changed—Sadat is its creature. *He was elected by the state bourgeoisie and is the provisional common denominator* of its needs as formulated by its various pressure groups in the ruling group. The state power's relative independence of the various bourgeois factions has visibly diminished. At the same time, the contradictions between these factions, which are vying for control of the state power, are now breaking out into open conflict, and this in spite of the temporary alliance they concluded after Nasser's death. The Rais had the necessary authority to arbitrate such conflicts. Sadat lacks this authority. The disgrace and disintegration of the state power are now inevitable.

In the face of Israeli arrogance, Russian penetration, and betrayal by the ruling bourgeoisie, the Egyptian masses have again become conscious of their responsibilities—for henceforth it is they alone who can react. *There are no more mediators—the Egyptian masses are now the sole depositaries of the national dignity.*

The most progressive elements are beginning to make a basic distinction—systematically obscured by the regime—between two conceptions of the national dignity. For the bourgeoisie, national dignity was never more than a provisional slogan reflecting the exigencies of its struggle against the pre-1952 anti-national classes, and of its accession to the status of ruling class. This is why this slogan had a bourgeois content

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which appealed, abstractly, *to the pride of all Egyptians, but not to the anti-imperialist initiative of the masses.*

For the masses, on the contrary, national dignity is *but a superstructural means* to the only end that meets their basic interests—*total national independence.*

It is becoming increasingly evident that national dignity *is not identical* with national independence. National independence is a function of an *objective, global relationship of forces* between an oppressed nation and its external enemies.

A nation can achieve real independence only through the ideological, political, and military mobilization of the masses—the only force which can prevent the combined power of the imperialists from crushing its resistance and undermining its independent development. In the absence of such a mobilization, national independence is an illusion. If, instead of relying on a long people's war, a state power relies on its ability to maneuver between the great imperialist powers and smashes all anti-imperialist mass initiative, its "independence" will, at best, be no more than *a brief transitional stage between two forms of dependency.* The sense of national dignity acquired during such a stage will, in turn, be no more than a subjective defiance that will eventually succumb to reality, and merely serves to obscure the interests of a class which is ready for any compromise.

The most progressive elements in Egypt are beginning to face reality. They reject a spurious "national unity" between Egyptians who want to achieve the liberation of their land through a people's war and Egyptians who are ready to recognize a *de facto* Israeli state, precisely because they fear a people's war. They are beginning to conceive of a struggle *without* the latter and *against* the latter. They are beginning to link the struggle against Israel and her American protectors to the struggle against the Egyptian bourgeoisie and its Russian protectors. They are beginning to link the struggle for true independence to the class struggle.

The hour of the people's power has struck.

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DICTATORSHIP OF THE PROLETARIAT, SOCIAL CLASSES, AND PROLETARIAN IDEOLOGY

BY CHARLES BETTELHEIM

Paul Sweezy's remarks (MR, December 1970, pp. 14-21) indicate that we have succeeded in reaching agreement on the basic answers to the chief problems raised by our prior correspondence. The fact is thus confirmed that it is possible to overcome initial differences, even on complex problems, provided the participants in the discussion share the Marxist view of history, economics, and politics, and provided the discussion is sufficiently extended.

To be sure, the discussion between Paul Sweezy and myself, which began in October 1968, has raised "new questions"—but these were in fact implicit in the initial divergence of views.

Concerning a Number of Questions

Proceeding from an assumption we share—movement in the direction of socialism presupposes that the proletariat is in power—Paul Sweezy asks:

(a) Whether, in my opinion, the *class nature of state power* depends exclusively on the policies pursued by the government and the party?

(b) Whether, in order for the theory of proletarian state power to have explanatory value, it is not essential that there should be an "independent method" of establishing the identity of the class in power?

To these questions, he adds two others:

(c) What are the modalities and stages in the growth of a new state bourgeoisie?

(d) Under what conditions can one expect a victory of

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the proletariat, and under what conditions a victory of the new state bourgeoisie?

It seems to Paul Sweezy that the difficulties raised by these questions are in turn related to the difficulty of specifying what is meant by the "proletariat in the kind of underdeveloped countries in which most of the anti-capitalist revolutions of the twentieth century have taken place." (MR, December 1970, pp. 16-17) Paul Sweezy, in fact, holds that the "classical" theory of Marx and Engels was elaborated in terms of the historic role which the founders of scientific socialism assumed the proletariat in the industrialized countries was bound to play in the revolutionary process. But, he adds, except for the Soviet Union such a proletariat did not exist in the countries where socialist revolutions have taken place. Moreover, even in Russia the proletariat was unable to carry out its task of providing economic and political leadership—it was largely destroyed and dispersed as a result of civil war and foreign invasion.

I do not intend here to discuss the real weight of the working class in the various countries where a socialist revolution has taken place, or the effects on proletarian state power of the civil war in the USSR; on the other hand, I consider it very important to furnish the elements of an answer to the other questions raised above.

To be sure, the importance and vast scope of these questions make it impossible to answer them in the detailed manner they deserve, at least in one article; this would require an entire volume. It is nevertheless possible and useful to provide some brief answers. The propositions set forth by Paul Sweezy in the second part of his remarks, moreover, contribute elements of such answers.

On the Class Nature of Revolutionary State Power

In my opinion, what makes it possible to determine the true class nature of revolutionary state power established through struggle on the part of the masses—of a state power which has expropriated the old owning classes and claims allegiance to the working class—is the *nature of the class interests* served by this power; this requires an examination of the concrete relations between the state power and the laboring masses, and

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consequently, of the *modes of existence of proletarian state power.*

(a) *The nature of the class interests* served by this power. The analysis must provide an answer, in class terms, to the question: "*Who* is served by the state power?" Does it serve the present and future interests of the direct producers and, above all, of the working class? Does it *help* the workers to effect a revolutionary change in the social relations, which will enable them to gain increasing control over their conditions of existence? Or does it serve the interests of a minority of nonproducers—and this may be the case even if this minority proclaims its "dedication to the cause of socialism"?

(b) The *concrete relations* between the organs of state power and the laboring masses. Today, in the light of historical experience and of theoretical analysis of this experience, it is clear that one can speak of *proletarian state power* only if its *actual practices* reflect specific characteristics, and if the ruling party follows a *proletarian* line.

The Characteristics of Proletarian State Power

In view of long-standing and persisting confusion in this connection, it should be recalled that the essential effect of the dictatorship of the proletariat is to make it possible to establish some of the political conditions that must obtain before the direct producers can achieve collective social control over their means of production and conditions of existence. It should also be recalled that such control is by no means assured by state control of the means of production and by "economic planning." Such control—which can be achieved only through a protracted class struggle—depends primarily, but not exclusively, on whether the producers are in power. We may recall here what Lenin wrote in 1917: "The key question of every revolution is undoubtedly the question of state power. What class holds power decides everything. . . . The question of power cannot be evaded or brushed aside, because it is the key question determining everything in a revolution's development, and in its foreign and domestic policies."*

* Lenin, "One of the Fundamental Questions of the Revolution," *Selected Works*, vol. 2 (Moscow: Progress Publishers, 1967), p. 255.

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Control by the workers over their conditions of existence requires above all the dismantling of the old state apparatus and its replacement by a radically different apparatus. A new state apparatus that is essentially *similar* to the old apparatus will of necessity reproduce the *same social relationships.*

The basic *difference* between a proletarian state apparatus and a bourgeois state apparatus is the *non-separation* of the proletarian state apparatus from the masses, its *subordination* to the masses, i.e., the disappearance of what Lenin called "a state in the proper sense,"* and its replacement by "the proletariat organized as the ruling class."**

Control by the direct producers over their conditions of existence presupposes the destruction of the *old kind of state apparatus* which monopolizes all crucial political decisions as well as the means of their implementation, and which has at its disposal autonomous repressive forces which it does not hesitate to use against the laboring masses.

Without resorting to the formalistic use of "abstract criteria" posited without any reference to time and place, it can be stated that an extremely important characteristic of non-proletarian state power, or of state power that has largely ceased to be proletarian, is the fact that the state apparatus is placed above the masses and acts in an authoritarian manner with respect to the masses.

This characteristic of non-proletarian state power becomes even more significant when the *subordination* of the masses to the state apparatus is paralleled by an analogous relationship between the masses and the ruling party. (I will return to this point.)

When the state apparatus exists apart from the masses and stands above them, and the ruling party promotes this situation instead of struggling against it, the objective conditions obtain for the reproduction of political relations of oppression within which relations of exploitation can also be reproduced. Such relations of exploitation obtain when the non-producers

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* Cf. Lenin's notes on the *Critique of the Gotha Program,* made in January-February 1917.

** Lenin, "The State and Revolution," *Selected Works,* vol. 2 (Moscow: Progress Publishers, 1967), p. 285.

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exact surplus labor from the direct producers, and when the use made of the product of this surplus labor is not determined by the producers themselves; and this applies even if the determining agency is an "economic plan." It is also known that there may be exploitation even if the product of surplus labor is not individually consumed by those who determine the manner in which it is used. In any case, capitalist exploitation is primarily exploitation with a view to accumulation and not consumption.

In brief, if the state apparatus which owns the means of production (as a result of state control) exists *apart* from the masses, and if, moreover, *this apparatus is not subject to control by a party which is linked to the masses, and which helps the masses to struggle to gain control over the use made of the means of production,* we are then faced with relations constituting a structure which reproduces the *separation of the direct producers from their means of production.* If under these conditions the relationship between labor power and means of production is expressed through a *wage relationship*, this means that the relations of production are *capitalist relations,* and that those who occupy leading posts in the central state apparatus and associated apparatuses are, *collectively, a capitalist*—a state—*bourgeoisie.*

As we have already indicated in passing, it would be dogmatic and formalistic to try to advance an abstract criterion of the proletarian character of the state without taking into account concrete historical conditions, and particularly the nature of the relations between the state and the ruling party, the characteristics of this party, and *the direction in which this party's activities tend.* This is why there is surely no "single model" of *non-separation*, i.e., of *unity* between the state apparatus and the masses, but only *concrete forms* corresponding to the historical conditions of the *class struggle.*

Historical examples of such forms of unity are provided by the Paris Commune, by the 1917 Soviets in Rusia, and by the various forms of people's power in China. ("Military" forms as well as "civilian" forms: the People's Liberation Army is undoubtedly the first army which is not separate from the people but, on the contrary, *integrated* with the people and subservient to it.)

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Historical experience shows that because of the weight of the dominant ideological relationships resulting from centuries of oppression and exploitation and reproducing themselves on the basis of a *social division of labor* which cannot be revolutionized overnight, the political forms which are intended to enable the direct producers to organize themselves as a ruling class tend, if a systematic struggle is not waged against this tendency, spontaneously to transform themselves in the direction of an *"autonomization" of the organs of power,* i.e., of a *new separation between the masses and the state apparatus,* and consequently, of a reconstitution of political relations of oppression and of economic relations of exploitation. During the entire period of transition, therefore, there is a struggle between two roads: the socialist road and the capitalist road.

To say that a transitional social formation follows the socialist road is tantamount to saying that this formation is engaged in a revolutionary process of transformation which enables the laboring masses to gain increasing control over their conditions of existence, i.e., which strengthens their ability to *liberate* themselves. To say that such a formation follows a capitalist road is tantamount to saying that it is engaged in a process which increasingly subjects the laboring masses to the requirements of a process of reproduction which they do not control, and which ultimately, therefore, can only serve the interests of a minority which uses the state apparatus to establish and consolidate the conditions that enable it to become dominant.

The road followed by a social formation is always determined by *class struggle.* The class struggle pits those who struggle for the victory of the socialist road against those who struggle for the victory of the capitalist road. The former consist of the proletariat and of all the popular classes allied with it; the latter consist of the aggregate bourgeois social forces, regardless of whether or not these forces belonged to the old bourgeoisie, or whether or not they are "conscious" of the fact that the success of their political line will result in the defeat of the proletariat. Where the means of production are under state control, the crucial arena in which bourgeois social forces can be constituted or reconstituted consists of the state apparatus

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itself, and of the upper echelons of the ruling party and of the ideological and economic apparatuses. For the proletariat to be able to maintain its leading role it must constantly maintain the initiative on the ideological and political fronts. This requires that it remain united and closely allied with all the popular classes that also have a stake in socialism. These conditions can be fulfilled only if the proletariat has its own ideological and political apparatus—a Marxist-Leninist party. This gives rise to another set of problems.

The Characteristics of the Ruling Party

The crux of these problems is this: in order to help the proletariat and the popular classes allied with it to advance along the socialist road, it does not suffice for the Marxist-Leninist party which has guided the proletariat in its conquest of power to remain "the same" *in appearance*; its class character must remain unchanged *in reality*: it must remain a proletarian party. For there can be no dictatorship of the proletariat if the ruling party is not the party of the working class.

It is clear that the proletarian character of the party does not depend on *"self-proclamation,"* on the party's own affirmation of its will to "build socialism," on its "determination to remain faithful to Marxism-Leninism" or to a "revolutionary ideal." Its proletarian character can be determined only by a *concrete analysis* that will show whether or not the political and ideological practices of the ruling party are in fact proletarian practices.

Historical experience has made it possible to provide a more adequate characterization of the class nature of the political and ideological practices developed by a ruling party. This experience, illuminated by Marxist theory, makes it clear that the class character of a party's political and ideological practice manifests itself in the structure of its relations with the masses, in its internal relations, and in its relations with the state apparatus.

If the concrete relations between the ruling party and the masses do not correspond to a proletarian practice, and if, within the party itself, discussion and ideological struggle give way to authoritarian relationships, it is then inevitable that the

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operative theoretical concepts of the party will become increasingly divorced from revolutionary Marxism. There can be no sound theoretical concepts without correct political practice. In order for the Marxist-Leninist principles to which a ruling party is committed to remain alive, and not to "function" as a frozen dogma abstracted from life, the party and its members must reject authoritarian practices, criticize those who engage in such practices, and constantly subject themselves to criticism by the masses.

In brief, a ruling party can be a proletarian party only if it refrains from *imposing orders* on the masses and remains the *instrument* of their initiatives. This is possible only if it submits fully to *criticism on the part of the masses,* if it does not try to *impose* "necessary" tasks upon the masses, if it proceeds from what the masses are prepared to do toward the development of socialist relationships. For the party to be able to assist the masses in this respect, it must be able to ascertain what furthers this development; it is this purpose in particular that Marxist-Leninist theory must serve.

The role of a proletarian party, therefore, is to *help* the masses to achieve *themselves* the tasks that correspond to their *basic interests.* At each stage of the continuous struggle to transform social relationships, the party must guide the masses with a view to their taking, within the objective and subjective limits imposed by time and place, the most far-reaching initiatives they are capable of toward the consolidation and development of proletarian social relationships.

A proletarian party cannot claim to "act in place of" the masses. For the masses must *transform themselves while transforming the objective world*, and they can transform themselves only through *their own experience* of victories and defeats. This is the only way in which the masses can *achieve a collective consciousness, a collective will, and a collective capacity, i.e., their freedom as a class.*

A *proletarian policy*—the only guarantee that the proletariat will stay in power—must therefore see to it that the masses do *by themselves* what they have an objective stake in doing, to the extent to which they are subjectively prepared to do so. Any violation of the consciousness and will of the masses repre-

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sents a *step back*. And such steps back may cause the proletariat to lose power.

The role of the party, therefore, consists not only in defining sound objectives, but also in grasping what the masses are prepared to do and in leading them forward *without ever resorting to coercion*, and by advancing slogans and directives which the masses can *make their own*, elaborating adequate tactics and strategy, and helping the masses to *organize themselves*.

The requirements of such relations between the party and the popular masses, and of such practices, make it essential that dictatorship, as Mao Tse-tung has written, "not apply within the ranks of the people," and that the popular masses "enjoy freedom of speech, of the press, assembly, association, procession, demonstration, religious belief, and so on."*

To say that dictatorship does not apply within the ranks of the people is also to say that it does not apply within the petty bourgeoisie and especially among the least prosperous layers of the middle peasantry. The proletariat and its party must lead the petty bourgeoisie onto the road to socialism which represents its real interests, but they must not use coercion with regard to the petty bourgeoisie. They must wage an ideological struggle which will make it possible, in Mao Tse-tung's words, to "carry petty bourgeois ideas along in the wake of proletarian ideas."

Such are some of the characteristics of the political and ideological practices of a party which is both a *ruling* party and a *proletarian* party, i.e., of a party which guides the masses but does not issue orders, a party which *centralizes* the initiatives of the masses in order to help them wage *united political struggles*. Such a party is necessary for the exercise of the dictatorship of the proletariat, for it is with the aid of such a party that the proletariat and the popular classes can gain increasing control over their conditions of existence by advancing toward their collective freedom; and this requires their *unity*—a unity which is *not imposed* but freely desired.

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* Mao Tse-tung, "On the Correct Handling of Contradictions Among the People," in *Four Essays on Philosophy* (Peking: Foreign Languages Press, 1966), p. 84.

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The Party and the State Apparatus

It is necessary here to stress the problems raised by the relations between the party and the state apparatus, for the nature of these relations constitutes one of the essential characteristics of the dictatorship of the proletariat which requires that the state apparatus be *subordinated* to the proletarian party. Only when the state apparatus is thus subordinated does it become possible, provided the relations between the party and the masses are correctly linked to struggle against the tendency of the state apparatus to become autonomous, to avoid the capitalist road, and to assure the withering away of the state.

The *dominant apparatus* of proletarian state power, therefore, is the *Marxist-Leninist party* and not the state apparatus. The Marxist-Leninist party is the true instrument of the dictatorship of the proletariat, and the crucial organizational form of a proletariat which has become a ruling class.

The party's decisive role is related to the *dominant place* occupied by the *proletarian ideology* which the party *embodies*; and this role is exercised not only with respect to all the other social apparatuses, but also with respect to the laboring masses whom the party *aids* to transform themselves, i.e., to *appropriate for themselves* a proletarian world view from which the masses are originally partially *separated* by bourgeois ideology. The proletarian party assumes its proper role by carrying the proletarian ideology within the ranks of the masses through the aid it gives them in their struggles, and by itself drawing the lessons from these struggles—by learning from the masses themselves.

The proletarian party is thus the instrument of the *unity* of the masses—a unity with respect to *action* as well as to *ideology*.

The effective dominant role of the workers grows to the extent to which the proletarian ideology becomes their own ideology. It is thus that the conditions are created among the masses themselves for the elimination of all bourgeois social relationships. For a Marxist-Leninist ruling party to be able to play a correct role, it must always accord primacy to the *class struggle*, and make the proletarian ideology the *dominant factor* in this struggle. In the absence of such a party, the objective and sub-

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jective relationships cannot be revolutionized, and the restoration of bourgeois domination becomes inevitable.

The dominant role of the party and the ideological and political nature of this role determine the basic place occupied within the party by the *ideological class struggle*, and the necessity for a certain "style of leadership," for a style of leadership which has been correctly characterized as "proletarian." Only such a style of leadership makes it possible to advance along the road to socialism, not through coercion (which never leads to advances along this road), but through ideological and political aid offered to all workers. Under these conditions, it is the workers who advance along the road to socialism, and this is the *only way of advancing* along this road. This is one of the aspects of what the Chinese Communist Party calls a "mass line."

In this connection, it should be added that if the concept of a "mass line" is closely related to the practice of the Chinese Communist Party, the theoretical foundations of this concept can be found in Marx and Lenin. Nevertheless, it is due to the experience of the Chinese Revolution and to the concepts of Mao Tse-tung that it has become possible theoretically to grasp the concept of a *"mass line"* and to understand that it is through the application of a mass line that a ruling party becomes the instrument of proletarian dictatorship and democracy, for the existence of proletarian power is ultimately decided at the level of the relations between the party and the masses.

The Question of an "Independent Method"

It seems to me that it is not possible to rely on a method "independent" of the one I have just discussed in order to determine the proletarian or non-proletarian nature of political power seized in the wake of a revolution. In fact, proletarian state power is exercised at first on an *economic basis which the mere possession of political power does not suffice to overhaul drastically.*

On the morrow of a proletarian revolution, and in spite of "nationalization" and "state control," most of the old social relations continue to exist, for they cannot be directly *"abolished."* These relations cannot be eliminated as a result of "decisions" made at the "top" by a revolutionary state power and im-

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mediately implemented. Their elimination results from a *revolutionary process extending over a historical period*, from a process during which all social relationships, and all the participants in this process, are "revolutionized." In particular, control by the producers over their conditions of production and existence requires a growing transformation of the social division of labor, which will bring about a gradual suppression of the distinction between manual and intellectual labor and between the implementation and making of decisions, and the reduction and eventual elimination of the role of technicians placed "above" the workers.

During these transformations, those who perform leadership tasks and "technical" tasks—the political cadres and the technicians—must live among the masses and share their life, subject themselves to their control, and engage in manual labor.

But the radical transformation of the relationships among the workers and between the workers and their means of production, and the total elimination of bourgeois relations of production and of the bourgeois social division of labor do not result "spontaneously" from the development of the productive forces. Such a transformation can only result from a *protracted class struggle* waged under the dictatorship of the proletariat, from a class struggle developing along a correct road; this requires a class struggle guided by the most advanced form of Marxist-Leninist thought as it is being developed in the light of the Chinese Revolution. Here, too, the decisive role is that of Marxism-Leninism viewed as revolutionary theory and practice, and this is why it is important to elucidate the proletarian character of Marxism-Leninism.

Marxism-Leninism as the Theory of the Proletariat

Marxism-Leninism is the theory of the proletariat because *it is the theoretical expression of the existence of the proletariat in the capitalist mode of production*—Marxism developed by adopting the point of view of the proletariat, the only point of view from which the significance of proletarian struggles can be understood. We should recall here the expression used by Marx when, in analyzing the historical scope of the Paris Commune, he declared that for the bourgeoisie and for those

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who adopt bourgeois positions the meaning of proletarian class struggles remains a "sphinx," an "enigma."

Marxism and Leninism proceed not only from the proletarian class struggle, but also from an analysis of the *objective contradictions* of the capitalist mode of production, from the elucidation of the *specificity* of the proletariat's position in this mode of production. The proletariat is a producing class entirely deprived of means of production, totally separated from its conditions of existence by the process of capitalist reproduction; it is a class which can liberate itself from capitalist exploitation only by eliminating not only capitalism but also all forms of exploitation of man by man, by thoroughly smashing the prevailing social relationships and replacing them with radically new relationships.

The specificity of the proletariat's position in the capitalist mode of production *forces* it, *if it is to liberate itself,* to develop a radical revolutionary ideology. The liberation of the proletariat from exploitation and oppression, in fact, requires its *ideological radicalization*, its growing commitment to a totally revolutionary ideology *essentially of its own making,* and *different* from the ideology to which the enormous pressures exerted by the bourgeois ideological apparatuses constantly tend to subject it.*

The proletarian ideology *corresponds to the position of the proletariat in the capitalist mode of production*; this ideology is Marxism-Leninism which, precisely, developed and continues to develop on the basis of an analysis of the objective position of the proletariat, on the basis of an awareness of the contradictions within which the proletarian class struggle develops spontaneously, and of the positions adopted spontaneously by the proletariat whenever its own struggles reach a certain level of intensity.

It is in this very precise sense that Marxism-Leninism is the revolutionary theory of the proletariat. It is for this reason that it is capable of permeating the working class with lightning speed whenever the objective contradictions which grip the

* The ideology to which the proletariat is thus subjected is obviously not the ideology *of* the proletariat, but the ideology which *weighs upon it,* or, as Rivenc expressed it in his unpublished text on *The Philosophy of Mao Tse-tung*, "ideology within the proletariat."

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proletariat reach a certain intensity. This is also why, whenever proletarian struggles reach a certain level of intensity, the proletariat *finds* by itself forms of mass organization which, as Marx and Lenin showed, correspond to the revolutionary role of the proletariat—the Paris Commune, the 1905 and 1917 Soviets, the revolutionary committees which arose in many countries, especially in China during the Cultural Revolution.

At the same time, the nature of the contradictions in which the proletariat is caught up explains why these organizational forms, which may be designated as "spontaneous embodiments of proletarian ideology," are in themselves unstable and precarious, hence the necessity to build a *specifically proletarian ideological and political apparatus,* a Marxist-Leninist party which *embodies* the proletarian ideology. Only such an apparatus makes it possible to *concentrate* the mass initiatives necessitated by the liberation of the dominated classes from all forms of exploitation and oppression, and enables these classes, through the instrumentality of their struggles, to *appropriate for themselves the proletarian ideology* from which bourgeois pressures constantly tend to *separate* them. As was stressed by Marx, it is through revolutionary struggles, and only through such struggles, that the proletariat succeeds in transforming itself ideologically. As he wrote in *The German Ideology*: "This revolution is necessary, therefore, not only because the ruling class cannot be overthrown in any other way, but also because the class overthrowing it can only in a revolution succeed in ridding itself of all the muck of ages and become fitted to found society anew."*

Marxism-Leninism is the revolutionary theory of the proletariat because it draws the *ultimate* conclusions imposed by the analysis, made from the point of view of the exploited and not of the exploiters, of the struggles of the proletariat, and of the proletariat's position in the capitalist mode of production. Marxism-Leninism was thus able to elucidate both the radically revolutionary role of the proletariat and the global historical character of the proletarian revolution, the latter deriving from

* *The German Ideology* (New York: International Publishers, 1947), p. 69.

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the development of the capitalist mode of production as a global system of exploitation and oppression, from which the peoples of the world can liberate themselves only by waging a global struggle.

The Theory of the Proletariat and the Forces of the Revolution

In the light of the preceding discussion, we can now deal with the following crucial point: once Marxism-Leninism *exists* as a revolutionary proletarian theory, and once it exists as a *revolutionary party* which "embodies" this ideology and translates it into practice, *the scope of this theory remains by no means confined to the proletariat alone.*

This is so because the proletarian revolution does not elevate a new exploiting class, but is destined to eliminate every form of exploitation and oppression. As Engels reminds us in his June 26, 1883, preface to the *Communist Manifesto,* the developing proletarian revolution liberates not only the proletariat from exploitation, but also "the entire society from exploitation, oppression and class struggles." This specific character of the proletarian revolution means that if this revolution is made possible by the global existence of the capitalist mode of production and by the existence of the proletariat, *it concerns not only the proletariat,* but also all the exploited, all the oppressed, and all those who are committed to the elimination of exploitation and oppression.

We can now understand why it is quite possible for a proletarian revolution to be victorious even in countries where the working class is numerically weak, and why such a revolution is nonetheless a *proletarian revolution.*

The proletarian character of a revolution, in fact, depends more on the *dominant role* of the proletarian ideology and of the party which embodies this ideology, than on the "numerical" strength of the proletariat. The dominant role of the proletariat in the revolution, therefore, is primarily ideological and political. The proletariat can consequently become the *leading* ideological and political force of the revolution even when it is not the numerically *decisive* force, i.e., when other social classes, such as the poor and middle peasants, are numerically decisive.

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We must now deal with an important problem, that of the *determination of the proletariat as a class* during the socialist transition. This problem is related to the dominant role of the proletarian ideology during this transition.

The constitution of the proletariat as a dominant class is the result of an historical process: the process by which the proletariat appropriates its own ideology. This historical process requires the intervention of a specific ideological apparatus, the proletarian party, and is itself the result of a process of *social struggle* for the transformation of society and the world. It is, of course, through such a struggle that the proletariat transforms itself by achieving a unity inspired by its own ideology, by increasingly casting off the alien ideology which weighs upon it, by gaining increasing domination over material and social forces, and by transforming the nature of the productive forces in the light of the *truth* of its ideology—a truth which becomes proletarian *power* as soon as it takes hold of the masses. It is through these transformations that the proletariat becomes a dominant class which no longer dominates other classes but only itself.

The determination of the proletariat as a dominant class due to its appropriation of the proletarian ideology is a process which concerns above all the working class; for the proletarian ideology is precisely that ideology which corresponds to the objective position of the proletariat in the capitalist mode of production.

As soon as the break with this mode of production is initiated, however, the appropriation of the proletarian ideology becomes a process which concerns not only the direct producers, but also—by virtue of the prospect of liberation which the proletarian revolution holds out to the entire society—the agents of other social classes, provided the latter *completely and totally reject* the narrow interests of their class of origin and struggle concretely and effectively for the victory of the proletarian revolution, and provided they are constantly guided by the requirements of the struggle for socialism and by proletarian concepts aiming at the elimination of all obstacles to the control by the direct producers over their conditions of existence, of

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everything that separates them from their means of production, of everything that divides them.

The ideological determination of the proletariat as a ruling class means that it can incorporate all those who adhere to proletarian class positions, but only if they are fully committed to these positions. Thus in a social formation in transition toward socialism, those who occupy leading posts are bourgeois or proletarian depending on whether or not they are fully committed to proletarian positions. Because this class position, which is not rooted in a class situation circumscribed by the process of production, can be transformed by the ideological class struggle, this struggle assumes overriding importance and may determine the *road* along which the social formation will advance.

It is also because the actual social situation, present or past, the experience of exploitation, of oppression and poverty, facilitate the adherence to a proletarian class position that the poor peasants and the poorest of the middle peasants constitute, alongside the proletariat, the fundamental social base of the dictatorship of the proletariat.

In transitional social formations, of course, other classes and social forces, in addition to the proletariat and the bourgeoisie, continue in effect to exist for a time, notably various popular classes such as the small and middle peasants. In order for proletarian power to be solidly established, it must be based on democratic relations with these popular classes. The very *unity* between the proletariat and the other popular strata (*without this unity the dictatorship of the proletariat is impossible*) requires, therefore, that the proletariat respect the specificity of these strata, so as to *guide* them along the road to socialism, which is also, of course, the *road toward their own liberation. Nothing can be achieved in this connection through coercion*—the use of coercion can only *divide* the popular forces, *isolate* the proletariat, and *lead to its defeat*. This is certainly as true in the industrialized countries as in the underdeveloped countries in which the proletariat is numerically weak.

The scientifically correct term "dictatorship of the proletariat" may have obscured the point that no dictatorship must be *exercised over the various popular classes*. The term "dictator-

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ship of the proletariat" in fact designates a relationship of political domination to be exercised exclusively over the small minority constituted by the bourgeoisie; this term in no way characterizes the relations that must obtain between the proletariat and the popular classes. If at times the latter fall into error, they must be *helped* to correct their mistakes, and not repressed. For these classes are also oppressed and, ultimately, exploited by the bourgeoisie; they are, therefore, destined to revolt against bourgeois social relationships. The proletariat must guide them in this revolt, for *in the contemporary world* this revolt of necessity leads the popular strata, if they are aided politically and ideologically, to adopt the *positions of the proletariat*. This is exactly what happens in the case of the poor and middle peasantry which—if the proletariat maintains correct political, ideological and economic relations with it—will be led to struggle for socialism; in such a struggle, these strata of the peasantry intervene as ideologically and politically *proletarianized* social forces. This is how the Chinese peasant masses entered upon the road to socialism.

In brief, the term "proletarian power" designates the dominant political and ideological role played by the proletariat within a specific social formation. This is, to be sure, the role of the proletariat within each country, but it is also the role of the world proletariat whose struggles have given rise to Marxism-Leninism and to the proletarian revolutionary ideology. It is the theoretical and practical lessons drawn from the struggles of the world proletariat that constitute the content of contemporary Marxism-Leninism. This content becomes a decisive agent of social transformation when it permeates the masses, and when it is embodied in a proletarian party capable of developing it.

Only the leading role of such a party, whose activity and organizational forms incorporate the collective knowledge acquired by the proletariat through its revolutionary struggles, can assure not only the *overthrow of the bourgeoisie,* but also the *preservation of power* by the proletariat.

The Class Struggle Under the Dictatorship of the Proletariat

The existence, at any given time, of a party whose activity and organizational forms incorporate the collective knowledge

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acquired by the proletariat through its revolutionary struggles does not provide a "definitive" guarantee that the socialist road will not be abandoned. The only "guarantee" of progress along the road to socialism is the real capacity of the ruling party not to become separated from the masses. This capacity must be constantly *renewed*; this also implies the renewal of the party—a continuous effort to avoid the sterile repetition of ready-made formulations, and repeated concrete analyses of every new situation, which is always unique. Such a capacity, in turn, requires that the party of the proletariat *remain in fact* the servant of the laboring masses, that it be capable of drawing the lessons from all their revolutionary initiatives, and that it commit itself to these initiatives and assist in their development.

Unless it fulfills these conditions, no ruling party can long contribute to victories on the road to socialism. If it does not fulfill these conditions, it will not be able to prevent its political line from ceasing to be a proletarian line, and will ultimately not be able to prevent the bourgeoisie from seizing control of the party and transforming it from instrument of the dictatorship of the proletariat into instrument of the dictatorship of the bourgeoisie. The latter, at any rate, may manifest itself, more or less provisionally, under the guise of a "state bourgeoisie." It is, therefore, a grave illusion to view the class struggle as "terminated" when the proletariat has seized power, and the means of production have been brought under state control or collectivized. This is not the end of the class struggle; it merely assumes new *forms*.

What makes it objectively possible and necessary to continue the class struggle under the dictatorship of the proletariat, is not only the existence of what has frequently been called "the remnants of the old exploiting classes," but also—we could even say, above all—the existence, i.e., the reproduction, of the old economic, ideological, and political relations that could not be "abolished" from one day to the next, and that can be *destroyed* and *replaced* by other relations only in the wake of protracted struggles. These old relationships are associated with the bourgeois social division of labor, with the separation between manual labor and intellectual labor, with the separation between leadership tasks and performance tasks, with the char-

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acteristic separation in bourgeois science between theoretical knowledge and practical skills, with the *representational forms resulting from these separations* (the *"value" form* is one of these forms), with the ideological forms that are reproduced on this basis, and so forth. These old relationships constitute the *objective base* that enables a minority of non-producers to exploit a majority of producers and makes it possible for the proletariat to be defeated. These relationships reproduce themselves over an historical period which continues long after the seizure of power, and this period cannot come to an end until socialism has been *established on a world scale.*

The loss of power by the proletariat is not necessarily the result of a violent physical struggle. Since the revolutionary ideology of the proletariat is an essential element of proletarian power, the ideological class struggle is also an essential element of the struggle for power and for the preservation of this power. This explains why the weakening of the role of proletarian ideology, and the errors thus induced, may create conditions enabling bourgeois social forces to develop, become consolidated, gain influence, and ultimately take over leadership of the party and the state, i.e., regain power.

In the face of this danger, neither forceful repression nor mere verbal and dogmatic "loyalty" to ready-made formulations are adequate. In the face of this danger, it is necessary constantly to elaborate a living proletarian ideology, to help, through an adequate social practice, this ideology to penetrate ever more deeply into the laboring masses, and to help the masses constantly to *revolt* against the old social relationships and against the "values" through which exploitation and oppression are "accepted" by the masses. Only in this way is it possible gradually to destroy the primacy, in class societies, of individual and particular interests, and to create conditions in which proletarian solidarity will be the most important consideration, and the individual will freely desire to place his strength and labor in the service of the construction of a radically new society. None of this can be achieved through coercion and repression. What is required here is revolutionary practice, concrete examples, free discussion—discussion which is not confined to a

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few leaders but which, on the contrary, extends to the entire party and to all the laboring masses, so that the latter will be led, through persuasion and active example, to adopt increasingly conscious proletarian ideological positions.

Such is the concrete meaning of proletarian ideological class struggle. This struggle bears no resemblance to the repetition of stereotyped formulations, or to the "excommunications" issued in the name of a few principles divorced from reality and practice.

It must be emphasized that such an ideological class struggle cannot be purely "spontaneous," for it must constantly relate to the world revolutionary practice and theory which have assumed the historical form of Marxism-Leninism. This struggle, and the construction of socialism, are impossible if based only on the "spontaneous concepts" of the exploited and oppressed classes. For we know that these concepts were largely *imposed* upon these classes by the old exploiting and ruling classes. Mere revolt against these concepts—however necessary—does not suffice to *replace* them with revolutionary proletarian concepts. It is this fact which makes it mandatory that there be, in addition, an organization which embodies these concepts, and which assures their mass diffusion and creative development through class struggles and constant critical analysis of the totality of social practices.

The role of a revolutionary party can never be that of a would-be "infallible guide" or a so-called elite. It is not, and cannot be, a "representative" of the working class and of the popular masses allied with it. Nor can it be a "substitute" for the working class and the popular masses; it can only be the *instrument* of the power of the workers. Its role is to be an organization which "embodies" revolutionary ideology and develops practices conforming to this ideology—an organization which serves the masses and is always prepared to learn from them. Only such an organization can provide a guarantee that the revolutionary theory of the proletariat will not be transformed into dogma but, on the contrary, will remain a weapon capable of defeating all attempts by new privileged strata to regain power. This, it seems to me, is one of the great lessons

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of the style of leadership of the Chinese Communist Party, and one of the profound meanings of the Cultural Revolution in China.

* * *

Paul Sweezy comments: This brings our correspondence on the subject of the transition to socialism to a close. I agree with Charles Bettelheim that we have made good progress in overcoming our original differences. And I am sure he would agree with me that many vitally important questions remain still to be explored. That will require much more study and understanding of concrete revolutionary experiences than we now have available, and it will require many further discussions in the future.

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CORRESPONDENCE

REFLECTIONS ON THE CONGLOMERATE MOVEMENT

Now that some of the tremendous energy of the recent merger movement has been sapped, it should be possible to draw some conclusions about the conglomerate corporations which dominated the movement (as the editors pointed out in their Review of the Month of June 1969). You analyzed the movement in the context of the long-term trend toward concentration of capital, and called attention to the political coefficients of the conglomerate movement. The old guard of Wall Street has pulled in the reins on some of the flashier conglomerators, but today the top corporations are substantially more diversified than before the movement began. The trend continues, and some important implications of it need to be specified with more precision.

I would argue that there were two independent sources for the conglomerate movement; neither, as might be expected, had any connection to rational economic relations, but both had extensive rationality in the working of capitalism. Let us call these the "holding-company source" and the "product-extension source."

Product-Extension Conglomerates

In many conglomerates, the necessity to find investment outlets for surplus profits has led the owners to seek to expand their product lines through acquisition. The corporation's traditional markets cannot produce as high a rate of return on new investment as other markets.

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The major form which this investment strategy takes is determined by an outstanding feature of our economic system,* namely, that in a capital-rich economy with a wondrous ability to produce at increasingly efficient levels, the major problem of management is sales—finding markets. Product-extension mergers allow for efficiencies in the sales effort (not, of course, in productive effort). A classical case is the merger of Pepsi-Cola and Frito-Lay, allowing back-to-back commercials for soft drinks and thirst-creating corn and potato chips. These product-extension mergers are most widespread in branded goods industries but occur as well in heavy industries and service industries. The Consumer Services section of the vast conglomerate International Telephone and Telegraph Company is a fine example, including Sheraton Hotels, Avis rental cars, Airport Parking Co., etc.

The thrust for product extension comes in great measure from the search for higher profit rates. The famous statements of John J. Raskob on the DuPont investment in GM in 1917—"It is imperative that this amount [a $50-million surplus] be employed, otherwise the earnings of our company after the war will be insufficient to support the dividend policy"—have their equivalents in modern-day business practice.

Forbes' description of the takeover of Minute Maid by Coca-Cola fits this pattern like a glove:

> Coca-Cola suffers from an embarrassment of riches. The company's opportunities for investing money in Coca-Cola itself are limited. It's the bottlers who put up the capital for plant and trucks. The result is that Coca-Cola finds it difficult to spend all the money it makes. It has distributed as much as 84 percent of its earnings in dividends: the figure is currently around 60 percent, but still the money keeps piling up.
>
> In 1960, to put Coca-Cola's cash to work, [President R. W.] Woodruff embarked on a program of diversification. He organized the Fanta Division to make fruit drinks, including Sprite, a lemon-lime. He bought Minute Maid and in 1964 Duncan Foods.**

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* As pointed out by James O'Connor in "Finance Capital or Corporate Capital?", MONTHLY REVIEW (December 1968). O'Connor's pre-Penn Central judgments about the "decline of the banks" do not affect the soundness of this statement.

** *Forbes* (August 1, 1967), p. 32.

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Some industries have fallen completely into the conglomerate pattern. All the tobacco companies have branched out into other branded goods, particularly pet and human foods, so that American Tobacco, once a proud, nay arrogant, monopoly company, now calls itself American Brands. Rent-a-car, mobile home, meatpacking, and publishing are four other industries predominantly absorbed, company by company, into conglomerates through product-extension mergers.

Product-extension mergers do not have to be into parallel or compatible product lines, because a large company with a sizable staff can build up products even if they are vastly different from existing lines. One way is through reciprocal trade, in which conglomerates A and B decide that A will buy work uniforms and rent cars from B if B will buy executive airplanes from A and take out ads on A's television stations.*

Neither reciprocal trade nor product extension makes the economy more rational or more productive; they only make powerful companies richer, giving them dominant positions in an increasing number of markets.

Holding Company Conglomerates

The leftover connotations of the term "holding company," dating back to the twenties, suggest jerry-built empires with chains of subsidiaries connected by financial legerdemain and without any production or sales rationale. They are fully appropriate to the "pure" conglomerate of today, whose managers freely disavow any meddling in operations or sales. The conglomerator is a trader of companies, just as lesser capitalists are traders of securities.

James Ling in his heyday started from a base as a defense contractor well endowed by a friendly Democratic administration with risk-free contracts, and parlayed it into a famous empire. He holds well over 10 percent of the common stock of

* Concrete instances of reciprocity dealings are discussed in detail in Federal Trade Commission, *Economic Report on Corporate Mergers* (1969), chapter 6.

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Ling-Temco Vought,* which in turn has held a majority of the securities of nearly a score of operating companies, some of which have repeated the process through chains of subsidiaries. Ling-Temco-Vought as a corporate entity does only two things: it buys, rearranges, and sells majority-owned operating companies, and it sets performance targets for them. As *Forbes* says, "These takeovers really amount to little more than a recapitalization of the company taken over."**

In other words, Ling and his successors at LTV are speculators; the hard facts of the economy in the late sixties gave rise to an orgy of speculation which Ling and his imitators merely formalized. The war-related inflation of interest rates placed a high premium on fast returns on investment, returns far more likely to come from speculative than productive activity. Although the rates of utilization of productive capacity dropped during the final years of the sixties, the use of capital markets by corporations boomed upwards, to $47.4 billion of borrowing in 1969, more than the combined borrowing of all other sources (households, governments, and foreigners), more and more going to investment in paper (the stock of other companies) rather than investment in productive assets.

Thus the key to success is the ability to borrow. Litton, Whittaker, Teledyne, LTV, and Textron all made great use of their firm base in the military-industrial complex: while it was at its risk-free best, it made these companies blue chips, with virtually unlimited lines of credit.

The authors of these paper empires have invested in a lot of jargon to rationalize their feats; some call their inventions by names like "con-generic," "multi-markets," and "autonoplex," supplementing their four-color charts of skyrocketing financial success with business-school gobbledygook. The B-school ideology they have appropriated argues that the craft of management

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* Other pure holding-company conglomerates include Whittaker, Kaiser Industries, and Rapid American; in each of these one man or family controls a holding company which holds dominant interests in a variety of operating companies. But many other conglomerates which have an operating company status under the law are just like holding companies; the headquarters staff in Providence of Textron, with only eighty-five people, makes only financial decisions, all operating decisions being made by the divisions.

** *Forbes* (February 1, 1970), p. 17.

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itself is the valuable asset which they have contributed to each additional productive unit. Thus:

> Diversification is one more step in the process of the professionalization of management that has proceeded so rapidly in the United States since the Second World War. It represents the search for a new business structure which will provide a means of survival for the corporation beyond the life cycle of a single industry, just as the corporate form of management provided a means of survival beyond the life cycle of a single family.*

There is much truth in statements like this, but the result of the conglomerate movement is not "professionalized management" so much as strengthened corporate power. We have been informed by radical economists in recent years that corporations are private governments, and the analogy has become quite sophisticated. Let us now extend it to say that *conglomerate* corporations are analogous to imperialist governments. Product-extension programs which put into the company's sales department the power to make highly advantageous trade deals with other corporations are the equivalent of imperialism's trading program; and take-over programs reflect a company's desire to invest its capital "abroad" (that is, in "foreign" industries) rather than at home at prosaic profit rates in traditional pursuits.

Conglomerates After the Shakeout

The process of the old elite reasserting its dominance over the upstart conglomerators had already begun when you reviewed the merger movement in June of 1969. The financial establishment has it in for all would-be competitors, not merely take-over artists, as can be seen in the predicament of the international and mutual-fund manager, Bernie Cornfield. Paul Cabot of the Boston Cabots was quoted in *Forbes* recently calling for a "purge":**

> No, I don't think the worst is over, I'm afraid there's more to come. I'm afraid we're going to see some major scandals, and these are going to shake confidence even further. We may even see some things on the scale of Ivar Krueger's collapse 50 years

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* Miller, Stanley, *The Management Problems of Diversification*, p. 136.

** *Forbes* (June 15, 1970).

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back. How's all this business with Cornfield and King going to end? There's got to be more of a purge before we get back to normal again.

The Penn Central episode was in part a warning by the bankers to those corporate managers who had borrowed more heavily than could be justified by their profits. But even after the weaker conglomerates dispose of some of their operations to meet debt obligations, the major result of the merger movement will remain undisturbed, namely, that giant industry in America is now substantially diversified. Many of the top corporations have no single product or group accounting for a majority of the company's sales or profits. And all of the advantages of bigness are being realized, more and more systematically.

But bigness itself cannot solve the deeper problems of the capitalist political economy; Penn Central certainly proves that. And the same force that has cooled off the merger movement —the general decline in profits—will have to be confronted by the giant companies that have been remolded by it. Whereas the strengths of the giant corporation in a period of expansion are well known, its strengths and weaknesses during contraction have not been adequately explored. Flexibility in labor relations is one characteristic that has been attributed to the conglomerate, and if these companies truly have extra bargaining power, it is likely to be employed to the hilt if the profit pinch turns out to be an extended profit slump.

Conglomerates and Labor

The idea of coordinated bargaining, as employed in the General Electric and Westinghouse situations, grew out of labor's early recognition, long before the term "conglomerate" came into vogue, that the diversified company could play divide-and-conquer with the many unions it faces. With GE, the practice of divide-and-conquer developed after the Cold War attack on the United Electrical Workers produced a situation with many unions representing what had formerly been a fairly united work force. Coordinated bargaining has only jelled successfully in a few cases, despite attempts in nearly 100 companies. In some cases, like Union Carbide, the company's successful resistance has been implemented through a thoroughgoing union-

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busting campaign. In that case, as in the copper strike, the key issue was labor's attempt to get common expiration dates. For the most part, however, conglomerates have not used their potential power in an aggressive way; Ling-Temco-Vought, for example, has not tried to alter meat-packing or steel industry patterns, although it could absorb a strike in its meat or steel units better than the latter could have when they were independent.

A number of factors, of which the merger movement is but one, have reduced the position of the individual unions from the strength attained in the 1940s; these are overseas expansion, increasing white-collar employment, and good old-fashioned open-shop practices.

Although I am on speculative ground, I would argue that the main threat to organized labor is not repression in the sense of government intervention, repressive laws, and police acts; rather it will take the form of a direct attack on labor's standards by the employers, taking full advantage of the inequalities of power that lie behind collective bargaining between highly concentrated management and Balkanized labor. If management can contain labor's demands by standing firm with lockouts, absorption of long strikes, and the imposition of a restrictive policy throughout the many units of a conglomerate empire, it will not need the direct action of the state.

An intensive corporate offensive against labor would expose all the weaknesses of the union movement that have grown at all levels over the past two decades, partly by dealing severe defeats to labor and partly by forcing a whole gamut of reactions, from apathy to determined, class-conscious response. Today, the proposal of combined action by labor against the great conglomerates is almost utopian—the exception of the GE coalition proves the rule—but an increase of labor conflict in the top corporations could have unforeseen consequences. It is in those centers of power that major new departures for radicalism must be initiated.

Chicago, January 1971 *Paul Booth**

* Paul Booth is the former Research Director of the United Packinghouse Workers AFL-CIO, as well as a former officer of Students for a Democratic Society.

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TO BOTH SOL YURICK AND DONALD LIGHT:*

As someone who has had his own flirtations with addictive drugs—in my case, crystalline methedrine, popularly known as speed—and as someone who has worked on an informal basis with addicts (i.e., my friends who have been strung out), I object to both of your approaches to the problem of drug addiction.

Sol Yurick is right: drugs *are* a business, as I can say, again as someone who has been involved in that business. And it has a powerful effect as a business—but not simply as a means to wealth, or the absorption of surplus, etc.

Rather, I think that the drug business has had its most powerful effect in the ideology of "Youth Culture." The "hippie" movement was only implicitly anti-capitalist at its most advanced stage —say, arbitrarily, in the period 1966-1967. The lack of explicit anti-capitalism was not due to the bourgeois origins and background of the participants; most hippies are the children of white-collar workers, have often been workers themselves, and certainly have no hopes of a future without labor, and labor of an exceptionally debilitating kind, as any third-rate bureaucrat or junior-grade white-collar worker can tell you.

The hippie movement, as a rejection of the regimentation and mechanization of bourgeois life, had anti-capitalist potential; the Left, however, failed even to attempt the development of that potential, turning rather to denunciations of hippies as the children of privilege, parasites on the working class, etc. But, in point of fact, hippies were generally *not* parasites, say in the sense that they lived off their parents, or off welfare provided by the workers' taxes, or by stealing or panhandling—that is vicious propaganda, put forward by the bourgeois press, politicians, and the neo-Stalinist Left (e.g., PL, YSA).

In general, hippies supported themselves (and, by the way, they still do) through day-labor; this was possible only because

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* See Sol Yurick, "Political Economy of Junk," MR, December 1970; and Donald Light, "A Response to 'Political Economy of Junk,'" MR, May 1971.—Ed.

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they lived very poorly (many of my friends, at that time, suffered from extreme malnutrition, and one acquaintance died from it). Despite the almost missionary attempts of groups like the Provos, Diggers, the various Free Churches, Clinics, etc., most of the hippies who left the areas of concentration like the Haight-Ashbury left for material reasons—like imminent starvation.

Mysticism and drug use provided an escape—not only from the alienation of bourgeois life, but from the daily misery of the hip life. There's a revealing maxim: rotten meat tastes as good as filet mignon when you're stoned on hash.

But the escape was more than an emotional one: selling drugs became the only really accessible means to material comfort, and the ethics of dope-selling—the archetypes of the non-ethics of the most vicious and grasping businessmen—became acceptable *because everyone was a dealer*. The process of concentration of the drug business was not much different from the process in other "industries"—cf. *Capital*.

But, Mr. Yurick, all of this has a limited point. True, drugs are—or are becoming—an integral part of the capitalist economy. And, even more true, drugs have had the counter-revolutionary effect of reinforcing a strong bourgeois ethic amongst young people. The point to which Mr. Yurick does not address himself is: how does a socialist movement deal with the growing drug problem? I might remind the reader that this question is not insignificant. Shrugging the question off is evidence of a callousness to human suffering which no socialist movement can afford—"serve the people," remember? But, perhaps more importantly to Mr. Yurick, drug use is *not* primarily a disease of the middle-classes, although it is increasing there. Go to any factory, large office, etc., and after a few minutes you can find the local pusher. And, in any high school in the country, one can find not only marijuana, which is historically common in working-class and lumpen-group high schools, and LSD, which is making only small inroads (the trip is too real, man, you dig?— Bebe Melendez), but heroin in large quantities, speed in even larger ones; and "reds" and "yellows" (phenobarbitol and nembutal, respectively—these are physically addicting barbiturates) are almost universal—it is common to drink some wine and then drop five or six reds; and the combination of alcohol and barbiturates is often fatal. In other words—the growth of drug abuse is primarily among working-class people, and especially amongst the young working class: the primary focus of any revolutionary strategy that does not expect capitalism to simply fall of its own weight.

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It is easy to glibly attack Light's "therapy." This is especially true because radical therapy, if it exists at all, is in a very primitive state. But community organizations, such as the Young Lords Organization, the Black Panther Party, Los Siete de la Raza, and the various white community groups have had a tremendous effect in counteracting the spread of drug abuse. And it is true also that the former addict will take his politics very seriously—because it represents his personal liberation from his own ruler, junk.

There is a tendency to consider individuals unimportant as we work toward a scientific understanding of capitalism and toward building a mass movement for its destruction. But it is a vicious tendency; as the women's movement has shown, people take their politics personally. And the most powerful form of political organizing is showing people that their personal oppression is *class* oppression; and showing them, concretely, that when they act collectively, they have strength. This can, should, and must be done with junkies. Not simply because they are human beings—though that should be reason enough; but because junkies themselves are proselytes of junk. Don't scoff at those who deal with individuals, Mr. Yurick; every revolution, in the last analysis, depends on the willingness and ability of individuals to transform themselves and their environment (cf. Paul Sweezy's Review of the Month in MR, May 1971). And a junkie has enough trouble maintaining while he fences a hot TV; he certainly couldn't help make a revolution.

David S. Kemnitzer

Menlo Park, California
May 30, 1971

It's impossible to do your own thing when they're roasting babies.
—Mario Savio

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WORLD EVENTS

By Scott Nearing

Still Planning

Soviet Russians have launched their latest five-year plan: 1971-1975. This is plan number nine. The first plan was begun in 1928. An overall national economic plan in 1928 caused a sensation among economists and was met with scepticism by the United States general public. A general economic plan for an entire nation as big and complex as the Soviet Union? Ridiculous! Impossible! More Bolshevik propaganda!

Lenin had announced a plan, in 1920, for the complete electrification of the Soviet Union by 1970. Even some of his closest advisers looked upon this fifty-year project as a dodge to encourage laggards in a country devastated by war and turned upside-down by revolution.

General planning as a means of stabilizing and directing a nation's economy was rejected out of hand in 1917 by economists and others who even considered the idea. It had no place in a private-enterprise, competitive world. "You might just as well try to plan the weather" was the general comment.

Man does not yet "plan the weather," though we predict it with reasonable accuracy. We have not worked out a foolproof system of economic planning, but, encouraged by the successes of Soviet planning and supplemented in recent years by national planning in socialist and capitalist-directed countries, we have moved forward to a position in which planning, local, regional, and national is taken for granted all over the world.

As the current chaos in international financial relationships spreads its paralyzing blight over wider areas of the

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planet-wide economy, we will wake up to a dawning awareness that we must either resign ourselves to the chaos of international competition or gather our forces together and move into an era of planet-wide cooperation and planning. Yes, of course, such a step involves and implies a "federation of the world."

Meanwhile the Soviet Union has capped half a century of social and economic planning by announcing its ninth five-year plan. *Soviet Life* is a monthly magazine published by the Soviet Union in Washington, while a parallel magazine, *America,* is published in Moscow. (Yearly subscription $3.95, from the Washington Editorial Board, 1706 18th Street N.W., Washington, D.C. 20009) In its July 1971 number, *Soviet Life* devotes a two-page spread to the Ninth Five-Year Plan. I am not in the habit of quoting extensively in this World Events department of MR; here I make an exception and print several paragraphs from the *Soviet Life* editorial.

The Main Task

When the Bolshevik party was founded in 1903, Lenin wrote: "We are fighting for the freedom and happiness of all those who labor." The socialist revolution of October 1917, the building of socialism and the gradual transition to communism—all these stages in the history of the party and the country have this high humanist goal: to achieve the prosperity and the free and harmonious development of all members of society.

A big step was made in the Eighth Five-Year Plan period (1966-1970) toward expanding production and raising living standards. The Ninth Five-Year Plan (1971-1975), whose draft directives were approved at the recent Twenty-fourth Party congress, will raise the Soviet economy to a new and higher social, scientific, and technical level and with it, the material and cultural welfare of the people.

The socialist economic system, based on the public ownership of the means of production, by its very nature is geared to the general wellbeing. In a socialist society, higher living standards are the motivation for labor, the driving force for more efficient production. As a consequence, there is an inherent link between production and consumption.

Under socialism it is possible to achieve the maximum growth rates in general, particularly for agriculture, light industry, and the rational distribution of resources, and the coordination and balancing of all branches of the economy. Consumer resources in-

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crease with the steady growth in labor productivity. Socialist distribution according to work done relates labor productivity to individual income; it gives everyone a personal interest in a more productive economy.

The new five-year plan is a wide-ranging program to raise real income, to more fully meet consumer needs for high-quality goods, increase the public consumption fund, improve living and working conditions, and bridge the gap between town and country.

To realize this program, the directives call for high growth rates in general, particularly for agriculture, light industry, and the food industry, and for a marked rise in the efficiency of all branches of the economy.

Rising living standards and socioeconomic progress depend largely on the volume and rates of growth of national income and on labor productivity. In the current five-year period, 87 to 90 percent of the increment in industrial production is expected to come from the rise in labor productivity. This presumes an accelerated rate of scientific and technological progress, more skillful workers, and a better use of natural resources.

Half a century has come and gone. Soviet planners, backed by carefully-digested experience, have fulfilled, nearly fulfilled, or over-fulfilled plan after five-year plan. Electrification of the Soviet Union was virtually completed before 1970. In 1971, from one continent to another, long-term and short-term economic planning is accepted as a matter of course by individuals, business corporations, and national policy makers.

Soviet scientists, engineers, and technicians have made distinguished contributions to the sum total of human culture since 1917. In many respects, the most impressive of these contributions is Lenin's idea that there is no need for a human society to slide backward into the Dark Ages when their culture pattern breaks down. If the roof leaks, you do not abandon your house; you patch or replace the leaky roof. If a social system runs amok, there is no need to panic. Study the teachings of history, learn the first principles of social science, and make the changes necessary to convert the shambles into a livable domicile.

The Ninth Soviet Five-Year Plan is designed to convert the Soviet Union into a more livable domicile for the Soviet people. Further improvements will be made as one plan follows another into the foreseeable future.

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Of Mice and Men

Dr. David G. Jose, a research associate at the University of Minnesota's health sciences center, has been studying possible links between nutrition and immunology. He presented his findings at a Chicago seminar on "Nutrition and the Future of Man," reported by the *New York Times* News Service (*Bangor Daily News,* September 16, 1971).

"He starved mice bred with a 95 percent probability that they would develop a malignancy. Under starvation conditions, the probability of developing cancer dropped to 5 percent, he said. His malnourished mice suffered fewer incidents of cancer than the same breed of well-nourished mice."

United States boosters boast that this country has the "highest standard of living on earth." It also has a high incidence of cancer. Over the past three generations, as the United States standard of living has risen, the incidence of cancer has increased. If the two trends are causally related, further advances in living standards should be accompanied by corresponding advances in the incidence of cancer.

An opposing formula would be equally valid. If Dr. Jose's findings are valid, that is, if a starvation diet (fasting, or minimal food intake) reduces the incidence of cancer, a drastic cut in the American food intake, an austerity diet, should be an easy first step in the current anti-cancer campaign.

Also worth noting is the important role played in the diet of affluent Americans by meat, cereal starch, and sugar. Nations with a high protein diet have a high incidence of cancer. They are also heavy consumers of denatured, chemicalized, and crystallized cane and beet juice, and of the denatured, chemicalized, starch content of wheat kernels sold as white flour.

It would be important, in this connection, to make a study showing the relation between affluence and cancer incidence. In olden times gout was a disease suffered by people who lived high. Is the same thing true now of cancer?

Not being a doctor or a dietician, I have no first-hand knowledge on the subject. But as an economist, I suspect that there may be some connection between affluence, with its many implications, and degenerative diseases. Dr. Jose's findings are intriguing. They should be followed up.

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Down with Dollars

In the May 1971 issue of MR, I commented on a review of the attitude taken by European bankers toward dollar devaluation. *Barron's National Business and Financial Weekly* of March 15, 1971 had subtitled its article: "The U.S. Can't Afford to be Complacent About Its Finances." It was headlined: "Another Day, Another Dollar?"

Five months later, on August 15, President Nixon announced that the United States, with a gold reserve of about $10 billion, would not pay any more gold to European creditors who held some 40 billion paper dollars that were assumed to be "as good as gold." *Barron's* was right. Another day had come and with it another dollar. By cutting the dollar loose from gold, Washington had devalued it in effect. For purposes of the 1972 political campaign, of course, the Administration continued to insist that there had been no devaluation.

Washington's official value of gold remained at $35 per ounce. On European money markets gold was selling up to $44 per ounce. As European spectators saw the future, dollars at $35 per ounce of gold were heavily overvalued.

When campaign speeches are made in the summer of 1972, Republican spellbinders can say truthfully that no dollar devaluation took place in August 1971 when, by presidential decree, the dollar was no longer exchangeable for gold. That proclamation was not a devaluation of the dollar; it was merely a refusal on Washington's part to honor its promise to pay gold for European-held dollars. Skunk cabbage by any other name is still skunk cabbage.

Early in September 1971, I had occasion to spend three weeks in Holland. There I saw at first hand the financial chaos which had followed the August 15 presidential announcement. The Dutch guilder is one of the strong currencies of Europe. In July 1971 a dollar had been exchanged for 3.6 guilders. In September there was no "exchange rate." Anyone who had dollars sold them for what they would bring. On a particular day, the Rotterdam-Amsterdam Bank was paying 3.44 guilders for a dollar. Across the street, on the same day, American Express was paying 3.30. In hotels, restaurants, and shops, dollars brought as little as 3 guilders. In one of the planet's most

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important money markets no one knew exactly what the dollar was worth.

For a century the pound sterling had been the generally accepted means of carrying on international business. Then for 26 years the dollar had enjoyed that distinction. President Nixon's August 15 announcement changed all that. By refusing to pay gold for dollars it plunged world finance into chaos.

Little wonder that the *Wall Street Journal* on its front page (Sept. 30, 1971) printed a black headline: "Down With Dollars. Monetary Authorities Agree on Need to Find New Reserve Currency." Every dog has its day. The dollar, top dog for 26 years, had surrendered the center of the financial stage.

The big question: what to do?

1. Use another national currency, perhaps the Swiss franc or the West German mark?
2. Have the World Bank issue a generally acceptable world currency?
3. Forget world standards and have each nation look after its own currency, letting the devil take the laggards?

The big question is still unanswered as this copy goes to the printer. Meanwhile the world economy marks time and loses momentum.

The government of my country snubs honest simplicity, but fondles artistic villainy, and I think I might have developed into a very capable pickpocket if I had remained in the public service a year or two.

—*Mark Twain*

How Capitalism Works

Increasing world production of major food crops—a bright potential for feeding larger populations—is currently building up costly surpluses and straining international trade relations.

—*New York Times,* April 14, 1969

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		Average No. Copies Each Issue During Preceding 12 Months	Single Issue Nearest To Filing Date
A.	Total no. copies printed	10,546	10,500
B.	Paid circulation:		
	1. Sales through dealers and carriers, street vendors and counter sales	4,279	3,469
	2. Mail subscriptions	5,247	6,003
C.	Total paid circulation	9,526	9,472
D.	Free distribution (including samples) by mail, carrier or other means	275	289
E.	Total distribution (sum of C and D)	9,801	9,761
F.	Office use, left-over, unaccounted, spoiled after printing	745	739
G.	Total (sum of E and F—should equal net press run shown in A)	10,546	10,500

I certify that the statements made by me above are correct and complete. —HARRY MAGDOFF, Co-editor

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(*Continued from inside front cover*)

We have received an announcement that will surely be of special interest to MR women readers. A "Conference on Economic Perspectives on Women in Society" is being held in New Haven, Conn. on November 13 and 14 (for women only). Registration is at the Yale Law School Faculty Lounge. The conference is sponsored by several New Haven Women's groups, as well as by the Women's Caucus of the Union for Radical Political Economics. Topics of discussion include: Women in the Labor Force, Economics of Housework, Marxism and Feminism, Treatment of Women in Economic Literature, and Women in the Corporations. For more information about the conference or its follow-up activities, write or call Laurie Nisonoff, 479 Orange Street, New Haven, Conn. 06511 (Tel.: 203-624-1408).

A correspondent in South India writes to tell us about a large study group ("more than 100 members including doctors, engineers, lawyers, teachers, and students") that meet regularly to discuss questions of Indian and international concern. "Our chief handicap," he says, "is lack of reading material for our library. Our meager funds, depleted by the devaluation of the rupee, have made it practically impossible for us to buy magazines and books. We shall therefore be highly grateful to you if you could kindly request your readers to send us their used magazines and books—even paperbacks would serve our purpose." The address is C.S. Pillai, Sec'y., Kulasekharapuram, Mylady P.O., South India.

We received a letter the other day telling of the visit of two U.S. professors on a study trip to Chile. "One small episode," they reported, "we thought you'd appreciate. We went into one of the many fine book-stores in Santiago and saw a group of students eagerly pulling items off one particular shelf. We looked a little more closely to see what was producing the excitement and found that they were selecting *old* issues of MR with great enthusiasm. Apparently a new shipment has just arrived."

A letter reached us the other day from Lusaka, Zambia, signed by two people: "One of us lives in Zambia, the other in London. We met in Lusaka and discovered that we knew each other. For we have both been MR hands for many years. This is to show you how far the reader-ship extends! And to send you greetings and best wishes." Many thanks, and we hope both readers will read this wherever they may happen to be.

TO WRITERS SUBMITTING MANUSCRIPTS TO MR

Please send for a copy of our style sheet before submitting an article. A properly prepared manuscript will facilitate editing and publication, make for greater accuracy, and enable us to produce a better MR.

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MONTHLY REVIEW PRESS ANNOUNCES THE PUBLICATION OF TWO IMPORTANT BOOKS

by Juan Angel Silén

translated by Cedric Belfrage

The protagonist of this book is the Puerto Rican people; and in it their authentic voice begins to be heard. Silén attempts to restore to his people their history, stolen from them along with their land and independence, and their character, smothered by a fog of false ideology based upon the notion that Puerto Ricans are passive and docile accomplices in their own victimization.

We, the Puerto Rican People begins with the land, the people, the early history and revolts, and rapidly sketches the labor and nationalist movements, the economy, education, religion, women, before going on to an account of the current situation and struggles. The author draws on a wide variety of little-known source materials as well as his own experiences in various anti-imperialist movements.

Juan Angel Silén participated in the student movement at the University of Puerto Rico and was one of the founders of the Movimiento Pro Independencia. He is currently Associate Director of the SEEK program at Queens College, New York City.

$5.00/£2·25 CL1850

by Karl Korsch

translated and with an introduction by Fred Halliday

Marxism and Philosophy was written as an analysis of the historical degeneration of Marxist theory in the Second International. In 1930, no longer a member of the German Communist Party, Korsch published *The Present State of the Problem of "Marxism and Philosophy,"* in which he broadened his attack on "mechanical materialism" to include Lenin as well as Kautsky. This "Anti-Critique" is included in the present volume, along with two other essays: an introduction to Marx's *Critique of the Gotha Programme* (1922), and "The Marxism of the First International" (1924). Fred Halliday's introduction provides a political and intellectual biography of Korsch and a description of the setting for the appearance of *Marxism and Philosophy.*

Cloth $7.50 CL1531
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